PERFORMANCE OF THE EMPOWERMENT ZONE/ ENTERPRISE COMMUNITY PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

OCTOBER 28, 1997

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PERFORMANCE OF THE EMPOWERMENT ZONE/ENTERPRISE COMMUNITY PROGRAM

TUESDAY, OCTOBER 28, 1997

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:10 a.m., in room 1100, Longworth House Office Building, Hon. Nancy L. Johnson (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE
October 10, 1997
No. OV-10

CONTACT: (202) 225-7601

Johnson Announces Hearing on the Performance of the Empowerment Zone/Enterprise Community Program

Congresswoman Nancy L. Johnson (R-CT), Chairman, Subcommittee on Oversight of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing to examine the performance of the Empowerment Zone/Enterprise Community (EZ/EC) Program. **The hearing will take place on Tuesday, October 28, 1997, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The EZ/EC program was established by the Omnibus Reconciliation Act of 1993 (OBRA 93) (P.L. 103-66), and expanded by the Taxpayer Relief Act of 1997 (P.L. 105-34). Implementation began with a nominating procedure in January 1994. In December 1994, the Administration announced the designation of 104 EZs and ECs: 6 urban EZs, 3 rural EZs, 65 urban ECs, and 30 rural ECs. Additionally, since 1982, 41 States have established their own zones. Four States have terminated their programs, but 3,000 zones exist in 37 States.

Under OBRA 93, a qualifying small business in an EZ is eligible for an extra $20,000 in expensing, and employers are entitled to a 20 percent credit on the first $15,000 of wages paid to certain qualified employees. Expanded use of tax-exempt private activity bonds is available to both EZs and ECs.

Additionally, each urban EZ can receive up to $100 million and each rural EZ can receive $40 million in flexible Social Service Block Grants (SSBG) funds. Each EC can receive $3 million in SSBG funds over the 10-year life of the program. The funding is from Title XX, administered by the U.S. Department of Health and Human Services.

Under the Taxpayer Relief Act of 1997, 20 new empowerment zones (15 urban and 5 rural) are to be designated under a second round of competition, using a somewhat expanded eligibility criteria. The bill also authorizes the Secretary of Housing and Urban Development to designate two additional urban empowerment areas to receive the tax incentives authorized by the 1993 statute. Eligible businesses in the remaining 20 enterprise zones will be eligible for expensing, but not for a wage credit. The measure provides additional tax-exempt financing, but no SSBG funding for the 22 new zones.

H.R. 1031, introduced by Reps. J. C. Watts (R-OK) and Jim Talent (R-MO) would establish 100 renewal communities and provide tax incentives for businesses in renewal communities.

In announcing the hearing, Chairman Johnson stated: "In December 1994, the Administration announced the designation of 9 empowerment zones and 95 enterprise communities. While it may be early to fully evaluate the success of this program, it is time to start. With Congress considering legislation to establish 'renewal communities,' it is especially important that we identify benchmarks for success in the program that is already underway."

(MORE)

FOCUS OF THE HEARING:

The Subcommittee will examine the performance of the EZ/EC program, enacted by Congress in 1993 and expanded by the recently-enacted Taxpayer Relief Act of 1997.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should *submit at least six (6) single-space legal-size copies of their statement, along with an IBM compatible 3.5-inch diskette in ASCII DOS Text or WordPerfect 5.1 format only, with their name, address, and hearing date noted on a label*, by the close of business, Tuesday, November 11, 1997, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Oversight office, room 1136 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments. At the same time written statements are submitted to the Committee, witnesses are now requested to submit their statements on an IBM compatible 3.5-inch diskette in ASCII DOS Text or WordPerfect 5.1 format. **Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.**

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at "http://www.house.gov/ways_means/".

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

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Chairman JOHNSON of Connecticut. Good morning. The hearing will come to order.

Today we are going to examine some of the most fascinating initiatives to revitalize the deteriorating urban and rural areas that have ever been undertaken by government. During the many years that Congress debated whether and how to create enterprise zones, most of the States didn't wait, they established their own programs. The Connecticut program, for instance, began in 1982. Today, there are over 3,000 zones established under State law in 37 States.

The 103d Congress established the Federal program, the Empowerment Zone and Enterprise Community Program, as part of the Omnibus Budget Reconciliation Act of 1993. This 10-year program provided for over 100 urban and rural zones and enterprise communities. The recently enacted Taxpayer Relief Act creates an additional 22 empowerment zones primarily as a result of the interest of our first witness Mr. Rangel.

There are also proposals before the Congress to create additional zones. Most notably, the Watts-Talent American Community Renewal Act would create economic empowerment and tax incentives for up to 100 renewal communities.

The revitalization that is occurring in many neighborhoods and around the country is innovative and exciting. It is also costly. The 5-year revenue loss for the Federal program is estimated at 2.1 billion. An additional 1 billion is available in Federal social services block grants. In Connecticut alone nearly 1.7 million in corporate business tax credits have been claimed by qualified businesses. This is not necessarily too much to spend on programs that work well, but we owe it to taxpayers, especially those who are not receiving the tax breaks, and to people living and doing business in neighborhoods that are not receiving these initiatives, to take a hard look at how well the programs are working. We need to ask some tough questions. The most obvious is how do we define and measure success.

There is an inherent tension between giving communities the flexibility they need to develop innovative programs and establish useful benchmarks for success, a basis for comparison, and comparing the results of one program to those of another. This may be difficult, but we have to try. We have to wrestle with the equities of providing an incentive to hire people who live in some distressed communities but not others. We have to ask whether current law provides the right mix of tax incentives for capital and labor or whether we are subsidizing capital at the expense of labor. We need to concern ourselves with whether redevelopment is leading to gentrification and driving low-income residents into other neighborhoods. We need to take a hard look at whether the impediments to capital investment in a zone can be overcome through tax incentives, or whether they are more closely related to infrastructure and public services. And finally we need to ask whether these incentives actually create opportunities or whether they simply move jobs and investments from one neighborhood or community to another.

I am also interested in learning more about the interaction between State and Federal programs. In Connecticut we have 17

State enterprise zones and 12 State enterprise corridor towns. The programs provide corporate income tax credits, sales and use tax exemptions, local property tax abatements, and job incentive grants and vouchers. Bridgeport and New Haven have been designed as enterprise communities under the Federal program and qualify for both State and Federal benefits.

How do communities leverage both State and Federal resources to maximum advantage? As we begin this hearing, I am absolutely convinced that one of the great strengths of these programs is that they bring local officials, community leaders, and business people together to develop a strategy for dealing with the challenge of revitalizing neighborhoods. I am looking forward to finding out more about what we are learning in the various enterprise zones throughout the countries.

I want to thank our witnesses for appearing before us and at this time I would like to recognize my cochair Mr. Coyne for his opening statement.

Mr. COYNE. Thank you, Madam Chairwoman. Today the Oversight Subcommittee of Ways and Means will conduct a hearing to examine the performance of the Empowerment Zone and Enterprise Community Program. The EZ and the EC Program were enacted in 1993 and expanded recently in the Taxpayer Relief Act of 1997. This 10-year program is intended to foster national and local partnerships to address economic revitalization in our urban and rural areas.

In December 1994, the Administration announced the designation of 6 urban EZs, 3 rural EZs, 65 urban ECs, and 30 rural ECs. In legislation enacted this year, 20 new EZs are to be designated in a second round of competition, using expanded criteria and additional tax incentives.

I want to commend the subcommittee Chair Mrs. Johnson for holding this hearing on this important issue. It is critical that the Congress periodically conduct oversight review of progress being made throughout the country in reversing years of economic decline in many of our urban and rural areas.

The U.S. General Accounting Office will join us today to present the results of their efforts to monitor EZ and EC implementation at the national and local level. I appreciate their hard work and encourage the GAO to continue its ongoing oversight effort.

Also, it is important that the Department of Treasury and the Department of Housing and Urban Development appear jointly at our hearing to discuss their mutual efforts to ensure an effective and coordinated implementation of the EZ/EC Program and related tax benefits.

Finally, I want to personally welcome as hearing witnesses our two colleagues, Mr. Rangel and Mr. Hinchey; and also Joan Blaustein, manager of special projects for the City of Pittsburgh, and Ms. Beverly Gillot, Coordinator of the Pittsburgh Allegheny Enterprise Community. Thank you for joining us here today.

[The opening statement follows:]

OPENING STATEMENT OF
THE HONORABLE WILLIAM J. COYNE
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS

HEARING ON PERFORMANCE OF
EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES
TUESDAY, OCTOBER 28, 1997

Today, the Oversight Subcommittee of the Committee on Ways and Means will conduct a hearing to examine the performance of the Empowerment Zone and Enterprise Community Program.

The EZ and EC Program was enacted originally in 1993, and expanded recently in the Taxpayer Relief Act of 1997. This ten-year program is intended to foster national and local partnerships to address economic revitalization in our urban and rural areas.

In December 1994, the Administration announced the designation of six urban EZs, three rural EZs, sixty-five urban ECs, and 30 rural ECs. In legislation enacted this year, twenty new EZs are to be designated in a second round of competition, using expanded criteria and additional tax incentives.

I want to commend Chairwoman Johnson for holding an Oversight Subcommittee hearing on this most important subject. I agree that it is critical that the Congress periodically conduct oversight review of the progress being made, throughout the country, to reverse the years of economic decline many of our urban and rural areas face.

The U.S. General Accounting Office will join us today to present the results of its ongoing monitoring of EZ and EC implementation, at both the national and local levels. I appreciate their hard work and encourage the GAO to continue its effective oversight effort. Also, it is important that the Department of the Treasury and Department of Housing and Urban Development appear jointly at our hearing to discuss their mutual efforts to insure an effective and coordinated implementation of the EZ-EC program and related tax benefits.

Finally, I personally want to welcome as hearing witnesses: Ms. Joan Blaustein, Manager of Special Projects for the City of Pittsburgh, and Ms. Beverly Gillot, Coordinator of the Pittsburgh-Allegheny Enterprise Community.

Chairman JOHNSON of Connecticut. Thank you, Mr. Coyne.

Mr. Rangel, it is a pleasure to welcome you to our Subcommittee hearing. You certainly have had a long history of intense interest in urban problems and legislation to help our cities revitalize their economic base. I look forward to hearing your comments this morning.

STATEMENT OF HON. CHARLES B. RANGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. RANGEL. Thank you. I ask unanimous consent that my written statement be placed in the record.

Chairman JOHNSON of Connecticut. So ordered.

Mr. RANGEL. Let me thank you, Madam Chairlady and Mr. Coyne, for showing an interest in this very, very important subject matter. And in the prior administration, that is, during the Reagan-Bush administration, I chaired the House Select Committee Against Narcotic Abuse. During all of that time while I sat on this committee, when witnesses would come, I would ask them what really was the cost of addiction in economic terms, and it was very difficult for me to get answers, because they said that this type of information was difficult to measure.

Finally, somebody in the Bush White House had a tragic event in their family where a Harvard-trained lawyer, relative, became addicted to drugs. And before I could ask the question, he made it clear that he was going to get the information because drug addiction was not confined to poor communities. When the information came, even I was shocked to see that, during those years, $300 billion a year was attributed just to dealing with the criminal justice system as related to drugs. And by the time they added the cost of jails, the cost of the health care of AIDS, of unwanted children, of homelessness, crime and violence, lost productivity as a result of the mandatory sentences, and lost revenue that could be gained if indeed these people were working, it came close to a trillion dollars a year. I could not believe the figures.

And so the question was, then, what are we going to do about it? Well, unbelievably, wherever we found drug addiction, we found the worst schools, we found the highest unemployment, the highest poverty, the highest welfare, the highest crime, the highest homelessness. And so it really didn't take too much when you start putting these pins in the map to find that there were areas in the United States that congressional districts were getting more per capita than other districts for the wrong reasons, and that was trying to remedy a bad situation. Our emergency rooms were costing more. Our hospitals were costing more. It was $1,500 a day just to keep an underweight baby in the hospital. And the—it was millions of dollars involved in rehabilitation of kids that were shooting kids and remain permanently paralyzed. And so we saw, really, money just going out of the budget into the poor community, but nothing being left but misery, pain, joblessness and hopelessness. And so we said what are we going to do about it?

Well, fortunately, Bobby Garcia and Jack Kemp were around, and they had these ideas about empowerment zones. I was a cosponsor, but I wasn't that enthusiastic because they were just dealing with tax issues, and it just appeared to me that giving tax incentives to employers to come into communities that had no health system, no educational system, that was rife with crime and violence, that the tax incentive wasn't enough.

But I got together with Jack Kemp and Newt Gingrich, and we were able to put together the type of bill that not only dealt with tax incentives, but brought in the private sector to work with the communities in order to determine what the employment needs were going to be, and also to make certain that we got the city and the State to come forward to say what they were going to do to try to remedy this and to get the community to say that they, too, were going to participate.

The idea was so exciting that we had no problem in passing the bill. Unfortunately, it was included in a tax bill, and it was vetoed by President Bush. And then when President Clinton came, he adopted the idea, and we swiftly incorporated the new administration's ideas with the old ideas, and we reached a point that not only where we are today, but in the last bill we were able to expand the concept.

One of the most difficult things to explain, but yet one of the most exciting things about the process of empowerment zones, is that how losers can still be winners, even though they were not designated to become empowerment zones.

In my particular case, I was able to meet with the mayor, Mayor Dinkins, and to meet with the Governor, Governor Cuomo. And in order to come together to put together a proposal, they had to find out first what was the problem and what they were doing about the problem. Then if they were going to say that they wanted the schools to be more responsive to the needs of the private sector, they had to find out first what were the schools doing and not doing. Then they had to go to the local politicians and ask were they going to unify behind a program, or did they want to fight in a partisan way or in a political way, or did they want to come there.

Well, I was fortunate because in the city of New York, the mayor said whatever the Federal Government is prepared to put up, we will put up. I then took that and went to the Governor and said, the mayor is putting up $100 million, and HUD would put up $100 million. He said, put me down for $100 million.

We then went to Columbia and said, we have a potential of $300 million, but we have need some technicians to put a plan together. Could you ask what they need, and work with HUD? Columbia said, yes, but we want to work with the city university system, too.

So we were able to bring community leaders to tell our architects of the plan what was needed, with the political support of the city and the State, and even though, as the prime author of the bill, some people thought I was entitled to one, in my heart, I knew if I never got one, I had more just in bringing the people together to take a look at the problems that we were having in the community. And they were starting to work on the problems that they had even before we were designated.

Now, we had a major setback, because both Mayor Dinkins lost and Governor Cuomo lost, and it was during the budget time, and this hundred-million-dollar pledge, the first thing that happened was they acknowledged they were going to keep it, but then they went to try to find the money, and the city and the Governor were not compatible, and it took 6 months, really, of all of this fighting back and forth until HUD had to say that there were other communities that had plans that they were rejected because they did not reach the quality of the New York plan, but if that was going to deteriorate, they could not in all fairness fulfill their commitment without the city and State fulfilling theirs.

The adverse publicity caused them to come together. And even in my opinion, I thought that—well, the $10 million, the $100 million really, did not mean in their opinion $10 million the first year, and we lost half of that.

Having said that, that is the negative part. The positive thing is that once they decided to get together, Madam Chairperson, the whole city knew it, the whole business area knew it. And everybody that either did not participate formally were asking, what can we do to help.

Last night I attended a briefing of the board of directors, and I would like to add that our board is made up of not just community people and educators, but private sector people, and our chairman is the president of Time Warner, who came from a community like mine. And when I asked whether or not he could bring his managerial skills and the prestige of his office, he said he would not only welcome the opportunity to pay back a community that supported him, but he would encourage others who were successful not to forget this inner city and to come back and to try to compensate for the fragile family units that we have in poor communities that find itself suffering with joblessness and drug addiction.

And as a result of him doing this, last night, McKinsey, Incorporated, which is a multinational firm that evaluates the decisions that are being made by the private sector, not only evaluated where we were going, but on the Internet was able to show all of us where we could go if we unified our resources and was prepared to work together cutting the red tape that business people find in local and State governments. The tax incentive is there, but the business people said that if we can make certain that we are preparing a work force that is dedicated to being effective and efficient, that they really didn't need the tax incentives even though smaller businesses might do it.

And so we can go to the telephone company and to the stockbrokers, all of which complained about the public school system not being able to produce literate people, not being able to produce those that they would not have to spend hundreds of millions of dollars and retrain, and tell them, for God's sake, tell us what you want, tell us where the job is, and our kids can not only look forward to graduation, but look forward to a job, because the specifications were given to the schools to produce not just academically a graduate, but someone that can make a contribution.

I truly believe that the President of the United States should be given authority to negotiate not only foreign policy, but trade policy. And yet I cannot see my way clear to support giving the President fast track authority, because, until recently, I never heard the President talk about those Americans that know that they are not included in the progress that this country expects for the next century.

Oh, we hear a lot of talk about higher-paying jobs and high-tech jobs, but the schools that produce more kids that go to more funerals than go to graduations, they know that success is not in their community. They know that people that have the skills of television repair, cleaning clothes, selling food come from outside the community. They know we can't even produce firemen or policeman because the school system, coupled with the lack of hope, coupled with the fact that many of the families don't give the time and attention to the schools that they should, that they just come to the schools as losers, drop out of the schools. And when I talk with them and talk with their parents, they want to know what do they lose with drug addiction? Do they lose their family's good name? Do they lose their job? Do they lose their reputation? To many kids going to jail, it is no big deal. They come out, they have been there, they are from the hood, they have gone, they have come out.

IV drug disease is costing more than the educational budget. And right now as we talk, we spend $84,000 a year to keep a bum kid in Riker's Island, and we are fighting over whether $6,000 or $7,000 is enough money to keep him in public school.

And so I beg the President not just to look at this as a demonstration project, but he has been so successful in improving the economy and reducing the deficit, and we can reduce it even more if we did not have to pour this money out into our jail systems. Our jail system alone costs $450 billion a year. And it is senseless to see how State legislators are competing for jails and prisons the same way we did in a Congress for unneeded military bases, but they are doing it because jails in our States, and including New York State, not only excel the costs of our university system, but they are providing jobs for people, and politicians have to be concerned about economic development. And we now find that jails get a higher priority than new schools, and the whole thing is senseless.

And so I know that to talk about a public works bill where everyone is able to get the skills, or to talk about a giant community conservation corps, or to talk about creating jobs for people with training, that this is not the time to discuss it. But I know one thing, that we have our schools that have to be rebuilt, we have our infrastructure that is falling apart, and if we are going to succeed in the next century, we have to make certain that transportation, communication, education is going to be there. And we will not be able to effectively compete with 1.6 million people in jail, most all of them young, most of them minorities, and none of them unemployable.

So I came here really to support Congressman Watts and anybody else that was saying, isn't it time that we look at some of our most precious assets, human beings, and be able to tell the civilized world that we want to educate them, make them employable, put them to work, make them productive, because having a million and a half people in jail just doesn't make any sense at all.

And so I value this oversight. I think the empowerment zone is exciting. It has been of major success throughout the country. And even as we talk, HUD advised me this morning that they are going to have an overall national review system so that we can find out in Harlem, New York, what they are doing in L.A., what they are doing in Detroit, what they are doing in Philadelphia. And I don't think that any urban community or rural community that suffers the way we are suffering, sure they should compete and meet the criteria, but they shouldn't be passed over. Thank you, Madam Chairperson.

Chairman JOHNSON of Connecticut. Thank you Congressman Rangel.

I don't know whether you have ever had a blue ribbon school in New York City, I am just not up on that, but I have had a number of blue ribbon schools in my district, and for the first time an urban blue ribbon school. And when you talk to the schools that applied, whether they won or not, by the time they get up to the end of the competition, they almost don't care if they didn't win, because the consequences of the collaborative effort of preparing the application among the teachers, the administrators, the parents, and the kids is so important and so extraordinary and so productive for them that whether they get the name or not isn't of as much consequence.

And what I hear you saying is that in your experience, the empowerment zone legislation did succeed in forcing people to look at what is the problem and how would we solve it working together. And that is very important testimony.

Did I understand you to say that recently the businesses were heard to comment that the tax incentives were less important than the work force quality?

Mr. RANGEL. With the larger multinationals, because I have this area of poverty in one of the most successful political subdivisions above Manhattan, and they were saying, and they said it again last night, that if they can go into a community and bring that community back to life, they know how to make money, and they don't need the incentives as it relates to the employers' tax credit. They really wanted to cut out the red tape, let them get in there and let them do what they can do best.

But, of course, a community is not big business. A community really is small business, and that is where the tax credit really is important as—as employers have to almost train employees, many of whom have had no work experience at all, and the tax incentive allows them to be more competitive in doing it. But with the larger firms that have no competition, they said give them an even playing field, give them employees that they can work with, they don't need the incentive. And this is especially so if we are able to relieve them of the so-called retraining responsibility.

Chairman JOHNSON of Connecticut. Thank you, Mr. Rangel.

Mr. RANGEL. And I hope one day to come here, Madam Chairperson, with a proposal where any kid that lives in public housing, that is trained to be able to do a job in public housing, whether it is the manager's job, or whether it is cleaning the floor, whether it is security or elevator repair work, whether it is being an electrician or being a plumber. These public houses should be families, it should be a village, it should be a community by itself. And job opportunities—training and job opportunity, they should be given preferential treatment the same way we have legislation now to give law enforcement officers preferential treatment if they live there so that the pride and dignity of having a job can keep together not only our communities, but to bring together and keep together our families. Jobs mean so much to human beings' dignity and how they see themselves in their communities.

[The prepared statement follows:]

STATEMENT OF
THE HONORABLE CHARLES B. RANGEL
BEFORE THE SUBCOMMITTEE ON OVERSIGHT
of the
COMMITTEE ON WAYS AND MEANS
TUESDAY, OCTOBER 28, 1997

On the Performance of the
Empowerment Zone/ Enterprise Community Program

Good morning Chairwoman Johnson, Ranking Member, Mr. Coyne, and my colleagues on the Oversight Subcommittee. I am pleased to appear before you today to participate in the oversight process of the Empowerment Zone/Enterprise Community program. As you know, I am a strong supporter of this program.

One of the greatest challenges of this country has been how to revitalize effectively our deteriorating urban and rural communities. This challenge has faced us for more than 30 years, during which time many approaches have been tested.

The most recent approach we have used to address these problems was through the enactment of legislation to establish, and the subsequent designation of, 9 Enterprise Zones (EZs) and 95 Enterprise Communities (ECs).

Many of our efforts in the past involved the Federal government as the sole participant in the effort to solve these problems. I believe we have learned many lessons in this process.

The most valuable lesson I have learned is that we can significantly increase our success in this area if we permit the private sector to be an equal partner in the process of developing and implementing solutions, and permit the local communities to be actively involved.

The EZ/EC legislation blends these elements together in an effort to bring about positive change, as well as provide concrete evidence of success to these areas. The EZ/EC program is a 10-year program. The Department of Housing and Urban Development (HUD) is working closely with the designated EZs and ECs to help them maximize the benefits available to them under the program, and to help them use the program to launch economic success.

The program has been in operation for two years; the 104 EZs and ECs were designated by the Secretary of HUD on December 21, 1994. Much of the time since then has been spent implementing strategic plans for each EZ or EC. Local governments have adopted different approaches to implement their programs. Each EZ has undertaken diverse activities to meet the unique needs of the city.

This program is one in which local neighborhoods are encouraged to seek solutions to the problems of the community, rather than wait for Washington to solve them. It gives the communities and cities flexibility to address problems using approaches best suited for the particular city or community.

Despite the short time the program has been in operation, certain elements for success have been identified. I would like to encourage everyone here today to focus on these elements and continue to work with dedication to make this program a success.

In addition to the successful elements, certain elements have been identified that have impede, and will continue to impede, the progress of the program. We must also pay great attention to these factors. We must work to eliminate them to ensure the success of this program.

I would like to point out that one of the factors that has constrained, and that continues to constrain, the successful implementation of the program is the pressure for quick results from officials at the Federal, State and/or local level, as well as from the media and the public.

This program required establishing team-building and decision-making processes that were not previously in place. The development of these processes are not only time consuming but necessary to ensure sustainable results in the program. We should not be too quick to underestimate the difficulty involved in establishing a sustainable foundation for this program if it is to be successful.

While the community-based approach implemented in this program gives the neighborhoods an opportunity to be directly involved in developing solutions for their problems, it also results in a larger group of people than is customary being involved in the decision-making process. This often delays the time normally required to reach consensus. I am hopeful that this will improve with time and increased interaction among the parties involved.

I am aware that the "America Community Renewal Act," H.R. 1031, which is sponsored by Representatives Watts of Oklahoma and Talent, would create 100 Renewal Communities. These Renewal Communities would be similar to the existing EZs and ECs. I am also aware that this bill includes some additional incentives and features that are not currently available to existing EZs and Ecs.

I am encouraged that this bill adopts such a similar approach to addressing the problems faced by our economically depressed urban and rural areas. I would like to express my desire to work with both Mr. Watts and Mr. Talent in their efforts to address these problems.

I believe we can work together to develop new and innovative ways to help solve the problems that have plagued our economically and socially disadvantaged urban and rural areas for over 30 years.

Chairman JOHNSON of Connecticut. Thank you. Congressman Rangel.

Congressman Hinchey of New York.

STATEMENT OF HON. MAURICE D. HINCHEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. HINCHEY. Thank you very much, Madam Chairman, Mrs. Johnson. I very much appreciate the opportunity to be here before you today.

Mr. Coyne, thank you also very much for exercising your oversight responsibility with regard to empowerment zones and enterprise communities.

I ask unanimous consent that my written statement be included in the record.

First, I would like to associate myself with the remarks that were just made by the dean of the New York delegation in every respect. I think that he continues to put his finger directly on much of what ails urban America. And if we are wise, we will heed his advice, particularly with the misallocation of resources to prisons and the misallocation of our future locked up in many of those prisons and what that implicates for the future of our country.

I have had the opportunity in my own district to examine the efficacy of enterprise communities close at hand. We have in the mid-Hudson Valley of New York an enterprise community which is known as the Kingston/Newburgh Enterprise Community. It combines two old blue collar river communities on the west bank of the Hudson River.

The city of Kingston suffered recently economically as a result of the downsizing of IBM and is in need of outside financial assistance, which has been provided by the establishment of this enterprise community. The city of Newburgh has been in decline since the 1950s and gives evidence of every aspect of what ails our urban communities. It is an aging city, its housing stock is grossly deteriorated, the businesses have moved out, and it is in dire need of assistance. That assistance has begun to be provided by the establishment of this enterprise community, which combines both of these communities.

In the city of Newburgh, job training and business development have been critically important. The KNEC programs in Newburgh also focus on areas such as housing, child care and health care. And in addition to encouraging new businesses to locate in the enterprise community zones, the Kingston/Newburgh Enterprise Community has opened a "One Stop Capital Shop" to provide small businesses and entrepreneurs with the development services and job training and the capital that they need to get started.

The KNEC has also committed over $500,000 to develop or rehabilitate nearly 75 single family homes and 65 units of senior citizen housing in Newburgh. That is a lot for a city with a population of less than 30,000. By year end, the community will have expended almost $2.5 million on projects in both Kingston and Newburgh, and these projects have been everything from the kind of housing projects that I have described to financial arrangements for new businesses to come into the community, which are successful, are employing people, and are showing how effective this program can be.

I would like to point out one problem with the program as it currently exists, and that problem is being corrected, as I understand, with the reauthorizing legislation which you are proposing and moving forward with. That problem relates to one of the examples that my dean mentioned a few moments ago, and that is the problem of the relationship between the enterprise communities or empowerment zones and the States in which they are located.

The original legislation not only required that the States provide matching funding for the empowerment zones or enterprise communities, but it also provided that the State governments would act as pass-throughs for the Federal funds. In other words, the Federal funding goes to the State before it gets down to the empowerment zone or the enterprise community.

Now, in most States this has not been a problem, as I understand it, because the States have simply taken the Federal money and then given it to the communities as the need was apparent. However, in the case of the State of New York, something different occurred. The State began to act as a fiduciary and, in effect, blocked the allocation of Federal funds going down to the enterprise community of Kingston and Newburgh for a prolonged period of time, thereby holding up the efficacy of this program. The people who were administering the program as well as the members of local government were seriously and severely frustrated in their attempts to break through this bureaucratic arrangement of the State government, and that caused some very serious problems for the operation of this enterprise community and these two small cities.

Now, as I understand it, this problem is being addressed as you reauthorize this program, and this is pursuant to the recommendations of the President, because HUD, as the Federal administrator of this program—which I believe has done an excellent job in administering the program at the Federal level—has recognized that in some cases around the country the States have not been building bridges, but have, in effect, acted as roadblocks in preventing the Federal funding, not just the State funding, from getting down into these communities, and this has created a very serious problem.

So I would urge the committee as it moves forward with reactivating and reauthorizing this legislation, that it provide for a system whereby the designated communities, which, after all, have had to go through an application process and have had to clear numerous hurdles in order to qualify for the program, work directly with the Federal Department of Housing and Urban Development so that the funding they need can be accessed more readily. And I think if that is done, the effectiveness of this program will be greatly enhanced.

I would make just two other suggestions with regard to the bonding apparatus that is set up under the legislation. The bonding ability of the designated communities is controlled and regulated by the bonding cap of the States, which is affected by a number of variables within the particular States. This has made it very difficult for the communities to exercise this bonding authority under the State's cap, because if the State's cap has been reached, then the bonding ability of the locality, of course, is never able to realize itself.

So I would suggest that in the new legislation, the bonding authority of the communities not be tied to the State, but rather, that the bonding authority be tied to another criteria, say, for example, the population of the enterprise communities or the empowerment zones or some other variable that the committee may in its wisdom deem to be more appropriate.

But I think it is important to get it out from under the cap of the State, because the ability of the enterprise community and the empowerment zone to go out into the bonding market and get this capital that it needs is impaired very seriously by the State cap.

Additionally I would recommend that the bonds of these empowerment zone and enterprise communities be made bank-eligible. Under the present arrangement, banks are not able to participate in the lending regimens in the existing legislation. The bonds are not bank-eligible. I would suggest that local banks know very well or perhaps better than anyone else the needs of the local communities, and they are in a better position to respond to those needs. And I think that banks are interested in making these loans should you deem it appropriate to make these loans bank-eligible, as I am urging.

I think if those two changes were made with regard to the bonding arrangements in the existing law, a substantial amount of additional capital would become available. After all, if the loans are bank-eligible, banks will be able almost immediately to provide a very substantial amount of financial resources to these communities. And that, of course, is precisely what the original legislation envisioned.

Those would be my principal recommendations as you move forward with this. I would say just in closing again that I have witnessed this program close at hand. I participated in the application process. I have watched the administrators of the program work locally. I have worked closely with the two local governments involved. It is a very good program. I think even within the constructs of the impediments that I have mentioned, even in spite of it, I have seen this program working well.

I believe, however, that it can work much more effectively if we can get the State out of the way and make these changes in the bonding arrangements. And I thank you very much for the opportunity to testify on this matter before you.

[The prepared statement follows:]

TESTIMONY OF THE HONORABLE MAURICE D. HINCHEY
ON THE PERFORMANCE OF THE
EMPOWERMENT ZONE/ENTERPRISE COMMUNITY PROGRAM
BEFORE THE SUBCOMMITTEE ON OVERSIGHT
HOUSE COMMITTEE ON WAYS & MEANS
OCTOBER 28, 1997

Good morning Chairwoman Johnson, Mr. Coyne, and my colleagues on the Oversight Subcommittee. As a strong supporter of the Empowerment Zone/Enterprise Community program, I commend you for holding this hearing to examine the progress of this initiative. Thank you for inviting me to share with you the experiences of the Kingston/Newburgh Enterprise Community located in my district.

I believe the Empowerment Zone/Enterprise Community program is one of the best initiatives enacted by Congress to address urban decay and general neglect in communities throughout America. Instead of mandating a "one size fits all" solution for the very different challenges that face communities across the country, the EZ/EC program gives each locality the flexibility to develop the solutions that best meet its needs.

Kingston and Newburgh -- the two cities served by the Enterprise Community in my district -- are a good illustration of why flexibility is so important. Up until four years ago, Kingston was a thriving town with a stable employment base and a highly skilled workforce. The city was devastated when IBM -- the largest employer -- relocated its mainframe manufacturing facilities to Texas. Seven thousand good jobs were lost overnight.

Because Kingston still has the infrastructure and workforce, KNEC programs in that area focus on business development and worker retraining. For instance, KNEC is participating in the development of a state of the art regional Head Trauma Center that will be located at the former IBM site. It is also working with the local community college to develop a job skills program for EC Zone residents seeking employment at this facility.

Newburgh's needs, on the other hand, are much more basic, as the city has been in decline since the 1950s when garment and handbag factories began relocating overseas. While job training and business development are important, KNEC programs in Newburgh also focus on areas such as housing, child care, and health care. In addition to encouraging new businesses to locate in the EC Zone, the KNEC has opened a "One Stop Capital Shop" to provide small businesses and entrepreneurs with development services and job training. KNEC has also committed over $500,000 to develop or rehabilitate nearly 75 single family homes and 65 units of senior citizen housing in Newburgh.

By year end, KNEC will have expended almost $2.5 million on projects in both Kingston and Newburgh, including loan commitments of $600,000 to a number of area businesses through the Coordinated Community Lending Program. These companies will use the CCLP loans for start up costs or to expand their operations, creating new jobs and services in the EC Zone.

I am proud of KNEC's record in bringing capital and development services to Kingston and Newburgh. KNEC has succeeded in spite of considerable obstacles placed in its way by the State of New York. Congress designed the EZ/EC program as a block grant and gave the states a role in administering these federal funds. Most states simply act as a "pass through" when communities seek to draw down their Title XX funds. New York, however, takes a much more active role in the process. By acting as a fiduciary, the state throws up roadblocks when it should be building bridges.

The Empire State Development Corporation, which is the fiscal intermediary designated by Governor Pataki to administer the EZ/EC program, submits each EC project request to an audit-like examination *before* it will release any funds. This extra layer of bureaucracy slowed down the process so much that KNEC was in danger of losing its EC certification earlier this year because it was not implementing its strategic plan fast enough. I am pleased to report that subsequent performance reports from the Department of Health and Human Services and the Department of Housing and Urban Development have praised KNEC for making remarkable progress toward its goals, despite the persistent problems with the state.

Empire State Development has ignored the entreaties of both HUD and HHS to ease its burdensome drawdown requirements for the EZ/EC communities in New York. Madam Chairwoman, because my state will not work with the Clinton Administration to ensure that Title XX funds are delivered as expeditiously as possible to the communities, I believe Congress should clarify that the states' role in the EZ/EC program is to facilitate -- not impede -- the drawdown process. Without such a clarification, it is likely that activist states such as New York will continue to work at cross purposes with the communities.

KNEC has also experienced some snags in attempting to use its tax exempt bond authority. As you know, each Enterprise Community has authority to issue up to $3 million in tax-exempt private activity bonds to subsidize large-scale job creation projects and business expansion in the community. KNEC would like to take advantage of this financing tool, but -- like most other Enterprise Communities and Empowerment Zones -- it has not for a couple of very basic reasons.

First, EC bonds are subject to the state cap for private activity bonds. After New York allocates for housing, solid waste, recycling, and myriad other worthwhile programs, there is very little room left under the cap for our EC bonds. Furthermore, because these bonds are not "bank eligible," the most likely investors are prohibited from buying them. To remedy these problems, we should set a separate cap for EC bonds that is tied to the population of the community, similar to the authority that exists for EZ bonds. A separate cap would allow EC bonds to be underwritten without interfering with the states' priorities for other private activity financing projects.

In addition, Congress should allow banks to invest in tax-free EZ/EC bonds. No one is in a better position to determine the credit-worthiness of an issue than the local banker. Not only does he know the community, but he also has an incentive to build a relationship with businesses that are moving in or expanding. I know that many Members are concerned that making these bonds bank eligible would be very costly for the Treasury. The revenue losses for EZ/EC bonds, however, have already been accounted for because the authority to issue these tax exempt bonds exists under current law. Adding another category of investor will not change the revenue estimates because the statute limits the amount of bonds each community can issue.

As it stands, almost none of the EZ/ECs are using their tax exempt bond authority. In my opinion, if Congress wanted to give communities this tool to finance major development projects, we should make sure it works. It makes no sense to have bond authority that looks good on paper, but -- in reality -- is of little practical use. The two changes I've suggested -- a separate cap and bank eligibility -- would go a long way toward making private activity bonds a viable financing option for Enterprise Communities.

Madam Chairwoman, I commend you again for calling this hearing to look at the Enterprise Community and Empowerment Zone program. I encourage you to continue your evaluation and look forward to working with you to implement the changes I have suggested as you consider the future of this program.

Thank you very much.

Chairman JOHNSON of Connecticut. Thank you very much, Mr. Hinchey. It has been very helpful to have you testify, given your very close involvement in this program with your midsized city community, which is more like my experience. It reminds you—and if you look at the article in today's Washington Post about Indianapolis, it does remind you about how differently communities need to be able to choose to handle these problems, and how important the resources are. Thank you very much for your testimony.

Mr. Coyne.

Mr. Coyne has no questions, so we will move on to the next panel. Thank you very much for your testimony this morning.

Mr. RANGEL. Thank you, Madam Chairwoman.

Chairman JOHNSON of Connecticut. Dr. Scholz, the Deputy Assistant Secretary, Tax Analysis, of the Department of Treasury; and Howard Glaser, Acting General Counsel and Deputy General Counsel, formerly General Deputy Assistant Secretary of the Community Planning and Development of HUD. Welcome.

Mr. SCHOLZ. Thank you.

Chairman JOHNSON of Connecticut. Doctor Scholz.

STATEMENT OF JOHN KARL SCHOLZ, DEPUTY ASSISTANT SECRETARY, TAX ANALYSIS, U.S. DEPARTMENT OF THE TREASURY

Mr. SCHOLZ. Madam Chairwoman Johnson and Members of the Committee, I am very pleased to have the opportunity to present testimony today concerning the Empowerment Zone and Enterprise Community Program. My testimony will describe the tax incentives that are part of the program, recent changes to the program that reflect taxpayer concerns, and revenue affects of the EZ/EC program.

Under OBRA 93, nine first-round empowerment zones and 95 enterprise communities were designated at the end of 1994. Nominated areas were required to satisfy certain eligibility criteria based on poverty rates, population and geographic size, among other factors. The recent tax bill authorized the designation of 22 EZs; two additional first-round EZs, and 20 second-round EZs. These tax incentives are part of a comprehensive approach to address problems facing the EZ/EC communities.

The Federal Government provided flexible block grants to enable communities to undertake a broad range of activities that cannot easily be funded with tax incentives, such as community policing. Communities in partnership with the private sector and local government developed strategic plans for community revitalization that leveraged Federal resources in a wide range of creative programs.

The tax incentives which are the focus of my testimony lower the cost of labor and capital in these distressed communities. An employment and training credit, for example, is available to first-round EZs. This is a 20 percent credit against income tax liability available to employers for the first $15,000 of wages paid to each employee who lives and works in the zone. As an additional incentive for both first-round and second-round EZs and ECs, zone youth are included as an eligible target group for the work opportunity tax credit or WOTC. The WOTC is a 40 percent credit of up to $6,000 of wages paid during the first year of employment.

The capital incentives, there are two of those, are targeted to businesses that are likely to have a significant impact in the zone while limiting the possibility of abuse. In particular, at least 35 percent of employees in an enterprise zone business must be zone residents, and much of the activity and property must be in the zone. My written testimony goes into some detail about these criteria.

The two—both the first- and the second-round EZs are granted an additional $20,000 in the expensing allowance under section 179 for depreciable business property. What this does is lower the cost of capital for small zone businesses by allowing them to deduct the total cost of an asset in the year it is purchased. The first-round EZs and ECs also have the ability to issue tax exempt bonds.

Now, the administration, working with Congress, has tried to be responsive to communities by modifying the first-round tax incentives to improve their effectiveness. For example, there were concerns that the first-round tax-exempt bond requirements were too restrictive, as it was estimated that only five bonds were issued since the beginning of the program. As a result, the new tax-exempt bonds, the empowerment zone facility bond, was created that was outside the State private activity volume cap and not subject to the size limits.

A couple other items were also changed in response to community and other concerns. The definition of what is a zone business was also relaxed to make it work better, and a new phase-in period for bonds was instituted.

Now, because the tax incentives are only a part of the EZ/EC Program, a systematic complete evaluation should examine all components of the program and their effectiveness. Howard Glaser from HUD will discuss their plans for such evaluations.

Tax data will eventually provide useful information to monitor the EZ/EC Program; however, we do not yet have reliable tax return data on these incentives. Tax return data for the 1995 tax year, the first full year in which the incentives were in effect, are available, but are based on a small sample that probably does not reflect accurately the use of the EZ/EC tax incentives by all businesses. Further, available data are unlikely to reflect the effects of the EC/EZ Program because some zones are just beginning to implement their strategic plans.

To get a more complete understanding of the use of the EZ/EC tax incentives, the IRS is collecting data from the full population of business tax returns for the 1996 tax year. We expect to receive these data early next year. Even with complete tax return data, consolidation rules can make it difficult to determine which zone is benefiting from business taking advantage of a particular tax incentive. For example, a corporation may have operations in both the Detroit and the Atlanta EZs that can take advantage of the employment credit. The tax return for the corporation would just show the total employment credit taken in both zones.

With these caveats, tax return data should provide insights on the investment and employment activity benefiting from the credits as well as the characteristics of the businesses claiming the credits.

When tax return information are available for several years, it will also be possible to describe changes in economic activity in the zones over time.

Even so, it will still be difficult to disentangle the effects of the tax incentives from the other components of the zone program and other factors that may affect employment and investment in the designated areas, such as improvements in the economy or in the area surrounding the zone.

The problem of determining what would have happened in the absence of these incentives arises frequently in program analysis and is probably best addressed by the impact and 10-year evaluations that Howard Glaser will describe. The tax data, however, which we intend to monitor will play a useful role in establishing a baseline of how frequently the incentives are being used and how those patterns change over time.

That concludes my prepared remarks, and I would be pleased to respond to any questions.

Chairman JOHNSON of Connecticut. Thank you very much, Dr. Scholz.

[The prepared statement follows:]

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October 28, 1997

STATEMENT OF
JOHN KARL SCHOLZ
DEPUTY ASSISTANT SECRETARY
OFFICE OF TAX ANALYSIS
DEPARTMENT OF THE TREASURY
BEFORE THE
OVERSIGHT COMMITTEE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

Chairman Johnson and Members of the Committee:

I am pleased to have this opportunity to present testimony today concerning the Empowerment Zone and Enterprise Community (EZ/EC) program. The EZ/EC program was established by the Omnibus Budget Reconciliation Act of 1993 (OBRA 93) and expanded by the Taxpayer Relief Act of 1997 (TRA 97).

The EZ/EC program is designed to help distressed areas improve themselves. The program encourages leadership at all levels of government to resolve some of American's most difficult economic and social challenges. In the EZ/EC program, the Federal government is a partner in a ten-year long collaboration with residents, community-based organizations, businesses, and local and State governments. By designating an area as an EZ or EC, the Federal government will provide a special package of tax incentives and grant programs. The development in an EZ or EC is community-based, community-driven, and community-controlled.

My testimony today will describe for you the tax incentives that are a part of the EZ/EC program, the recent changes to the program reflecting taxpayer concerns, and the revenue effects of the EZ/EC program.

I. Description of Empowerment Zone/ Enterprise Community Program

Tax incentives are part of a comprehensive approach to address problems facing EZ/EC communities. The Federal government provided flexible block grants to enable communities to undertake a broad range of activities that cannot easily be funded with tax incentives, such as community policing. Communities, in partnership with the private sector and local government, developed a strategic plan for community revitalization that leveraged these Federal resources in a wide range of creative programs.

OBRA 93

As a result of OBRA 1993, the Secretaries of the Department of Housing and Urban Development (HUD) and the Department of Agriculture designated a total of nine first-round empowerment zones (EZs) and 95 enterprise communities (ECs) on December 21, 1994. As required by law, six EZs are located in urban areas (with aggregate population for the six designated urban EZs limited to 750,000) and three EZs are located in rural areas.[1] Of the ECs, 65 are located in urban areas and 30 are located in rural areas. Nominated areas were required to satisfy certain eligibility criteria, including specified poverty rates and population and geographic size limitations.

In addition to tax incentives, OBRA 1993 provided that Federal grants would be made to designated EZs and ECs. The tax incentives for EZs and ECs generally will be available for 10 years. An area's zone designation may be revoked if the local government or State significantly modifies the boundaries or does not comply with its agreed-upon strategic plan for the zone.[2]

TRA 97

TRA 97 authorized the designation of 22 EZs: 2 additional first-round EZs and 20 "second-round" EZs. The Secretary of HUD is authorized to designate the 2 new first-round EZs, which are to be located in urban areas (thereby increasing to 8 the total number of first-round EZs located in urban areas), within 180 days after the enactment of the TRA 97. The designation of the 2 new first-round EZs will become effective on January 1, 2000 (though we would support moving this date forward), and will generally remain in effect for 10 years. The 2 new first-round EZs are subject to the same eligibility criteria as applied to the original 6 urban EZs.

The 20 second-round EZs are required to be designated before January 1, 1999, and the designations generally will remain in effect for 10 years. No more than 15 of the second-round EZs are to be located in urban areas and no more than five in rural areas. In addition, areas within Indian reservations are eligible to be included in a second-round EZ.

TRA 97 also made numerous technical changes to OBRA 93's tax-exempt private activity bond provisions and the "enterprise zone business" definition, in order to allow a broader range of businesses to borrow the proceeds of the tax-exempt bonds and, in EZs, to qualify for the additional section 179 expensing.

A. Description of tax incentives

The tax incentives lower the cost of the two primary inputs for business -- labor and capital in distressed communities.

First-Round. The first-round program contains three tax incentives[3] as modified by TRA 97, all of which are available in first-round EZs and one of which is available in ECs. These incentives are divided among a labor incentive and capital incentives. In the EZs, the labor incentive is an employment and training credit, and the capital incentives are increased section 179 expensing and qualified enterprise zone facility bonds. In the ECs, the capital incentive is qualified enterprise zone facility bonds.

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[1] Rural enterprise zones are located in areas that are (1) outside a metropolitan statistical area as defined by the Secretary of Commerce, or (2) determined by the Secretary of Agriculture to be a rural area.

[2] An area's designation as a zone may be revoked only after a hearing on the record at which officials of the State and local governments are given an opportunity to participate and the governments have an opportunity to correct any deficiencies found at the hearing. Any such revocation may take effect only on a prospective basis.

[3] As a result of TRA 97, businesses in first-round EZs and ECs are also eligible for the new Brownfields deduction for environmental remediation costs paid or incurred prior to January 1, 2001.

Second-Round. The second-round EZ program contains three tax incentives.[4] These incentives are solely capital incentives: increased section 179 expensing and new tax-exempt financing with empowerment zone facility bonds. Unlike the first-round tax-exempt financing, the new empowerment zone facility bonds are not subject to the State private activity bond volume caps or the special limits on issue. ~~In addition, EZs can designate 2,000 acres~~.

1. Labor Incentive

Employment and training credit. An employment and training credit is available to first-round EZs. This is a 20 percent credit against income tax liability is available to all employers for the first $15,000 of wages paid to each employee who (1) is a zone resident (i.e., his or her principal place of abode is within the zone)[5], and (2) performs substantially all employment services within the zone in a trade or business of the employer. This credit encourages the employment of zone residents by lowering the cost of labor for zone businesses.

To reduce the long-term cost of the credit, the rate of the credit is phased down after eight years by 5 percentage points per year. Thus, the maximum credit in 2002 would be 15 percent of the first $15,000 of wages, in 2003 it would be 10 percent of such wages, and in 2004 it would be 5 percent of such wages. (The wage credit available in the two new first-round EZs has been modified, so that these new EZs receive the wage credit for eight years.)

The maximum credit per qualified employee is $3,000 per year (prior to the phase down period). Wages paid to a qualified employee would continue to be eligible for the credit if the employee earns more than $15,000, although only the first $15,000 of wages would be eligible for the credit.[6] The wage credit is available with respect to a qualified employee, regardless of the number of other employees who work for the employer or whether the employer meets the definition of an "enterprise zone business" (which applies for certain other tax incentives described below). In addition, the credit is allowable to offset up to 25 percent of alternative minimum tax liability.

Qualified wages would include the first $15,000 of "wages," defined as (1) salary and wages as generally defined for FUTA purposes, and (2) certain training and educational expenses paid on behalf of a qualified employee, provided that (a) the expenses are paid to an unrelated third party and are excludable from gross income of the employee under section 127, or (b) in the case of an employee under age 19, the expenses are incurred by the employer in operating a youth training program in conjunction with local education officials.

The credit is allowed with respect to both full-time and part-time employees. However, the employee must be employed by the employer for a minimum period of at least 90 days. Wages are not eligible for the credit if paid to certain relatives of the employer or, if the employer is a corporation or partnership, certain relatives of a person who owns more than 50 percent of the employer. In addition, wages are not eligible for the credit if paid to a person who owns more than five percent of the stock (or capital or profits interests) of the employer. An employer's deduction otherwise allowable for wages paid is reduced by the amount of credit claimed for that taxable year.

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[4] Businesses in the EZs, including an additional 2,000 acres which could be developed for commercial or industrial purposes but is not subject to the poverty rate criteria, are also eligible for the brownfields deduction of environmental remediation costs paid or incurred prior to January 1, 2001.

[5] Employers are expected to undertake reasonable measures to verify an employee's residence within the zone, so that the employer will be able to substantiate any wage credit claimed.

[6] To prevent avoidance of the $15,000 limit, all employers that are members of a controlled group of corporations (or that are partnerships or proprietorships under common control) are treated as a single employer.

Work opportunity tax credit. As an additional incentive for both first and second-round EZs and ECs, zone youth are included as an eligible target group for the work opportunity tax credit, or WOTC. The maximum WOTC is 40 percent of $6,000 in wages paid during the first year of employment with a maximum of $2,400.

2. Capital Incentives

Eligible businesses. Unlike the labor incentive described above, the capital incentives described below are available only with respect to trade or business activities that satisfy the criteria for an "enterprise zone business." These limitations are designed to target the capital incentives to businesses that are likely to have a significant economic impact in the zone, while limiting the possibility of abuse. An "enterprise zone business" would be a corporation, partnership, or proprietorship if, for the taxable year, the following conditions are satisfied: (1) the sole trade or business is the active conduct of a "qualified business" (described below) within an enterprise zone,[7] (2) at least 50 percent of the total gross income is derived from the active conduct of a qualified business within a zone; (3) a substantial portion of the use of its tangible property occurs within a zone; (4) a substantial portion all of its intangible property is used in the active conduct of such business; (5) a substantial portion all of the services performed by employees are performed within a zone; (6) at least 35 percent of the employees are residents of the zone;[8] and (7) no more than five percent of the average of the aggregate unadjusted bases of the property owned by the business is attributable to (a) certain financial property, or (b) collectibles not held primarily for sale to customers in the ordinary course of an active trade or business.[9]

A "qualified business" is any trade or business other than a trade or business that consists predominantly of the development or holding of intangibles for sale or license, or a business consisting of the operation of a facility described in section 144(c)(6)(B) (i.e., a private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, and any store the principal business of which is the sale of alcoholic beverages for consumption off premises). Farming is also excluded unless the unadjusted basis of the assets used by taxpayer in the business total $500,000 or less. The rental of tangible personal property to others is a qualified business if and only if at least 50 percent of the rental of such property is by enterprise zone businesses or by residents of a zone or community. For this purpose, a lessor of any commercial property within a zone or community may rely on a lessee's certification that the lessee is an enterprise zone business.

Activities of legally separate (even if related) parties are not aggregated for purposes of determining whether an entity qualifies as an enterprise zone business. Notwithstanding the particular incentives described below, investments in enterprise zone businesses are subject to the general loss limitation rules (e.g., the passive loss rules and the at-risk limitations).

Certain of the investment incentives impose limitations based on the type of tangible property used in an enterprise zone business. Such property, referred to as "qualified zone property," is depreciable tangible property (including buildings), provided that: (1) such property is acquired by the taxpayer from an unrelated party after the zone designation takes effect; (2) the

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7 This requirement does not apply to a sole proprietorship.

8 For this purpose, the term "employee" includes a self-employed individual (within the meaning of section 401(c)(1)).

9 An activity will cease to be a qualified enterprise zone business as of the date on which the designation of the enterprise zone in which the activity is conducted is terminated, except that the activity will continue to be a qualified enterprise zone business with respect to (1) the first taxable year of such activity, (2) any property placed in service before the date of termination of the zone designation, and (3) any property placed in service after the date of termination pursuant to a binding, written contract in effect before the termination date (and at all times thereafter).

original use of the property in the zone commences with the taxpayer;[10] and, (3) substantially all of the use of the property is in the active conduct of an enterprise zone business. In the case of property that is substantially renovated by the taxpayer, however, such property need not be acquired by the taxpayer after zone designation or originally used by the taxpayer within the zone if during any 24-month period after zone designation, the additions to the taxpayer's basis in such property exceed the greater of 100 percent of the taxpayer's basis in such property at the beginning of the period or $5,000.[11]

Increased section 179 expensing. The primary capital incentive for first-round EZs, and an incentive for the second-round, is an additional $20,000 in the expensing allowance for depreciable business property under section 179. This additional expensing is extended to all qualified zone property, including buildings. This increase in the expensing allowance lowers capital costs for small zone businesses by allowing them to deduct the total cost of an asset in the year it is purchased.

Expensing is only available for small business. The section 179 expensing allowance is phased out for certain taxpayers with investment in depreciable business property during the taxable year above a specified threshold. For the allowance claimed with respect to qualified zone property, the phaseout range is extended to $476,000 of investment (exclusive of buildings) made by the taxpayer during the taxable year. All component members of a controlled group are treated as one taxpayer for purposes of the limitation and the phaseout.

The increased expensing allowance applies for purposes of the alternative minimum tax (i.e., it would not be treated as an adjustment for purposes of the alternative minimum tax). The allowance claimed with respect to qualified zone property would be recaptured if the property is not used predominantly in an enterprise zone business (under rules similar to present-law section 179(d)(10)).

Qualified enterprise zone facility bonds. OBRA 93 authorized a new category of tax-exempt private activity bonds for use in first-round EZs and ECs. "Qualified enterprise zone facility bonds" are bonds 95 percent or more of the net proceeds of which are to be used to provide (1) qualified zone property for an enterprise zone business, and (2) land located in the zone the use of which is functionally related and subordinate to such a business. Qualified enterprise zone facility bonds are exempt from the general restrictions on financing the acquisition of land and existing property (section 147(c)(1)(A) and (d)).

The aggregate face amount of qualified enterprise zone facility bonds allocable to any enterprise zone business may not exceed $3 million with respect to a particular zone. In addition, the aggregate face amount of qualified enterprise zone bonds allocable to an enterprise zone business in all zones may not exceed $20 million. Bonds satisfying these requirements may be pooled and sold as part of a larger issue.

TRA 97 waives until the end of a "startup period" the requirement that 95 percent or more of the proceeds of a bond issue be used by a qualified enterprise zone business. With respect to each property, the startup period ends at the beginning of the first taxable year beginning more than two years after the later of (1) the date of the bond issue financing such property, or (2) the date the property was placed in service (but in no event more than three years after the date of bond issuance). This waiver is only available if, at the beginning of the startup period, there is a reasonable expectation that the use by a qualified enterprise zone business would be satisfied at the end of the startup period and the business makes bona fide efforts to satisfy the enterprise zone business definition.

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[10] Thus, used property may constitute qualified zone property, so long as it has not previously been used within the enterprise zone.

[11] Qualified zone property does not include any property to which the alternative depreciation system under section 168(g) applies, determined (1) without regard to section 168(g)(7), and (2) after application of section 280F(b).

In addition, TRA 97 waives the requirements of an enterprise zone business (other than the requirement that at least 35 percent of the business' employees be residents of the zone or community) for all years after a prescribed testing period equal to first three taxable years after the startup period. Finally, in the case of property that is substantially renovated by the taxpayer, the property need not be acquired by the taxpayer after zone or community designation or originally used by the taxpayer within the zone if, during any 24-month period after zone or community designation, the additions to the taxpayer's basis in the property exceeded 15 percent of the taxpayer's basis at the beginning of the period, or $5,000 (whichever is greater).

In certain circumstances an issue of qualified enterprise zone facility bonds can continue to be treated as tax-exempt bonds despite the fact that the issue ceases to satisfy the requirements relating to financing qualified zone property for an enterprise zone business. This rule applies if the issuer and the borrower in good faith attempted to satisfy the applicable requirements and any noncompliance is corrected within a reasonable period after the discovery of the non-compliance. However, no deduction is allowed for interest on any tax-exempt financing for any period in which the financed facility ceases to be used in a zone or the principal user ceases to be an enterprise zone business.[12]

Empowerment zone facility bonds. The second-round tax-exempt bond, the empowerment zone facility bond, is outside State private activity bond volume caps and not subject to the issue size limits. To control costs, total bond authorizing limits per zone were set. Second-round EZs in rural areas would be authorized to issue up to $60 million of bonds, urban EZs with populations under 100,000 would be subject to a bond cap of $130 million, and urban EZs with populations of 100,000 or more would be subject to a bond cap of $230 million.

II. Choice of Specific Tax Incentives

The Administration, working with Congress, has tried to be responsive to communities by modifying the first-round tax incentives to improve their effectiveness. The Administration's proposal, and ultimately TRA 97, focused on modifying the original program to remove restrictive provisions. For example, there were concerns that the qualified enterprise zone facility bond requirements were too restrictive. Such restrictions resulted in an estimate of only five bonds being issued since the beginning of the program. As a result, the second-round tax-exempt bond, the empowerment zone facility bond, was created that is outside the State private activity bond volume cap and not subject to the issue size limits.

In addition, TRA 97 relaxed restrictions in the definition of qualifying "enterprise zone business" for the tax-exempt bonds and the section 179 expensing in both rounds.[13] For example, instead of requiring at least 80 percent of total gross income of an enterprise zone business to be derived from the active conduct of a qualified business within an EZ or EC, the threshold is reduced to 50 percent. Similarly, "substantially all" requirements were generally relaxed to a "substantial portion."

In addition, rules applicable to rental businesses were clarified and relaxed. Specifically, a business that leases to others commercial property within a zone or community may rely on a lessee's certification that the lessee is an enterprise zone business. Similarly, the legislation provides that the rental to others of tangible personal property shall be treated as a qualified business if and only if at least 50 percent, instead of substantially all, of the rental of such property is by enterprise zone businesses or by residents of a zone or community.

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[12] The termination of an EZ's designation or any noncompliance due to bankruptcy would not result in the loss of tax-exempt status of the bonds or the application of the interest deduction disallowance rules.

[13] The changes to the tax-exempt financing rules are effective for qualified enterprise zone facility bonds issued after the date of enactment. These definitional changes also affect the section 179 expensing effective for taxable years beginning on or after the date of enactment.

Finally, TRA 97 relaxes and waives some requirements during the "start up" period of an operation financed with a qualified enterprise zone bond. For example, the requirement that 95 percent or more of the proceeds of a bond issue be used by a qualified enterprise zone business was waived until the end of a "startup period." In addition, the tax bill waives the requirements of an enterprise zone business (other than the requirement that at least 35 percent of the business' employees be residents of the zone or community) for all years after a prescribed testing period equal to first three taxable years after the startup period. Finally, the tax bill relaxes the rehabilitation requirement for financing existing property with qualified enterprise zone facility bonds.

As a result of these changes, we expect greater use of qualified enterprise zone facilities bonds.[14]

III. Evaluation of the EZ/EC Program: Revenue Effects

Because the tax incentives are only a part of the EZ/EC program, a complete evaluation should examine all these components of the program and their effectiveness. Howard Glaser from HUD will discuss their plans for such evaluations.

Tax data will eventually provide useful information to monitor the EZ/EC program. However, we do not yet have detailed tax return data on these incentives. Tax return data for the 1995 tax year, the first full year in which the incentives were in effect,[15] are available, but are based on a small sample that probably does not reflect accurately the use of the EZ/EC tax incentives by all businesses. Further, available data are unlikely to reflect the effects of the EZ/EC program because some zones are just beginning to implement their strategic plan. We also anticipate delays as taxpayers amend returns to take advantage of the incentives. To get a more complete understanding of the use of the EZ/EC tax incentives, the IRS is collecting data from the full population of business tax returns for the 1996 tax year. We expect to receive these data early next year.

Even with complete tax return data, consolidation rules can make it difficult to determine what zone is benefiting from a business taking advantage of a particular tax incentive. For example, a corporation may have operations in both the Detroit and Atlanta EZ's that can take advantage of the employment credit. The tax return for the corporation would show just the total employment credit taken in both zones.

With these caveats, tax return data should provide insights on the investment and employment activity benefiting from the credits as well as the characteristics of businesses claiming the credits. When tax return information are available for several years, it will also be possible to describe changes in economic activity in the zones over time. Even so, it will still be difficult to disentangle the effect of the tax incentives from other components of the zone program and other factors that may affect employment and investment in the designated areas, such as improvements in the economy or in the area surrounding the zone. This problem -- determining what would have happened in the absence of these incentives -- arises frequently in program analyses, and is probably best addressed by the five- and ten-year evaluations that Howard Glaser will describe. The tax data, which we intend to monitor, will play a role in establishing a baseline of how frequently the incentives are being used, and how those patterns change over time.

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[14] Indeed, a recent article in The Bond Buyer stated that "the municipal market professionals say a package of changes to the EZ program that became law this summer should make it even easier to finance economic development projects in depressed areas with tax-exempt bonds." See Stanton, Michael, (October 9, 1997) "Zone Bond Program's Popularity On the Rise Thanks to Changes," The Bond Buyer, p. 1.

[15] While the tax incentives were available between December 21 and December 31, 1994, few taxpayers took advantage of the incentives.

This concludes my prepared remarks. I would be pleased to respond to your questions.

Chairman JOHNSON OF CONNECTICUT. Mr. Glaser.

STATEMENT OF HOWARD GLASER, ACTING GENERAL COUNSEL, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. GLASER. Okay. Thank you, Madam Chairwoman, Ranking Member Coyne, and other distinguished Members of the committee. I will be very brief with my comments.

We have provided to the committee material on the HUD performance reports and other supportive material to give you a really full understanding of where we think the program stands at this point.

Let me say that we are pleased on behalf of Secretary Cuomo and the Department to be able to provide this to you today. Secretary Cuomo asked that I provide to you his thanks for your continued support of this initiative. It was, after all, this committee that, 13 years after the first enterprise zone ideas first came to the United States from England, made it a reality in 1993 and has continued to support the program as we move forward.

I will briefly tell you a little bit about some of the things we measure the program against. This was designed to be a different kind of Federal program in a number of ways. First, it was designed to be performance-based, rather than measuring process or money spent. The empowerment zones and enterprise communities set performance benchmarks against which both residents and investors can measure their progress, and which govern the receipt of future Federal dollars.

Also, unlike typical Federal urban programs of the past, the empowerment zone approach recognized that economic opportunity and self-sufficiency are the most important elements of a comprehensive strategy; also recognized that private sector investment was critical to the success of rebuilding communities.

The Federal resources provide seed capital, but, ultimately, a functioning inner city economy requires building a private market. We also recognize that communities which have been starved for investment and experienced extreme poverty for many decades cannot turn around overnight. And Congress wisely designed the program as a long-term, 10-year effort instead of the one-shot, short-term approaches of prior Federal efforts.

And, finally, we recognize that the implementation of the program must be locally driven, not by a bureaucracy in Washington. We heard a little bit in the differences between Congressman Rangel and Congressman Hinchey, how their districts are so very different. They have very different programs as a result.

In short, the Federal Government acts in this program much like a venture capitalist. We say to the communities, if you bring everybody to the table, you put together a business plan for reviving your community with some measurable benchmarks for success, and you bring resources to the table that you are willing to risk, then the Federal Government will step in and risk some of our resources as well on the success of your plan.

Those were the general major objectives of the program design, the original program design. Earlier this year, we released 72 reports, performance reports, one on each of the empowerment zones and enterprise communities, which review the progress of each zone in meeting their own strategic plan. And we have provided summaries of those plans and can provide you with the originals of those as well. What those reports show us in brief is that, although this is designed as a 10-year effort, the zones and communities are already showing some real and, in some cases, substantial progress in meeting their goals.

As you might expect, in any effort of this kind, of course, cities perform at different levels. There are very high performers, moderate performers, and, frankly, there are some weak performers. But throughout, the progress in each zone is measured against their own goals that they set for themselves, not a one-size-fits-all Federal cookie cutter standard.

The overall picture that we get from the reports from the 72 zones is that, nationwide, these zones are stimulating billions of dollars of new investment, private investment. They are beginning to revive inner-city neighborhoods once given up for dead, creating jobs, helping families move from welfare to work.

We have seen some key lessons emerge from these reports as well that we can apply as we move forward to the enhancement of a second round. For example, we know a small amount of Federal funding can attract significant private-sector investment. We know that comprehensive results—comprehensive planning has had better results than piecemeal efforts. We have found that there is some tension between city hall and community residents over the investments made in their communities, but that working out that tension is really essential for residents to have a long-term stake in the outcome of the empowerment zone process.

Fourth, we found that performance measurement is an important part of ensuring that Federal resources are used effectively; and, finally, that interagency coordination at the Federal, State, and local level is critical to program success.

We could spend some time walking through with what some of the innovations are. They are in the reports. We will be glad to share those with you. But even a brief review gives you some sense of the new ideas being undertaken.

There has been a lot of bipartisan support for this program throughout based on the early progress of the program, as we have discussed here. The President proposed and Congress passed a second round of empowerment zones through the Taxpayer Relief Act of 1997, and while the establishment of those 20 new zones is a terrific first step, the addition of flexible grant funds to accompany the tax incentives will help ensure the success of that second round. And the Department looks forward to working with the committee on that challenge.

We will be happy to take any questions.

[The prepared statement follows:]

Testimony of Mr. Howard B. Glaser, Acting General Counsel, U.S. Department of Housing and Urban Development before the U.S. House of Representatives Committee on Ways and Means, Subcommittee on Oversight

Update on the Empowerment Zone & Enterprise Community Initiative October 28, 1997

Good morning Chairperson Johnson, Ranking Member Coyne and other distinguished members of the Subcommittee. My name is Howard Glaser, the Acting General Counsel at U.S Department of Housing and Urban Development (HUD). In my previous job as General Deputy Assistant Secretary for Community Planning and Development, I was responsible for the operations of the urban Empowerment Zone/Enterprise Community Initiative (EZ/EC Initiative).

I am pleased to be here on behalf of Secretary Andrew Cuomo to provide the Subcommittee with an update on this 10-year Initiative. Secretary Cuomo has worked very closely with President Clinton and Vice-President Gore to ensure that the EZ/EC Initiative is a success, and the Secretary has asked me to thank you for your support of the Initiative. We welcome this opportunity to update you on our progress.

I want to commend the Ways and Means Committee for its work over the years on the EZ/EC Initiative and for its commitment to improve the quality of life in our nations' communities. In particular, Chairman Archer, Ranking Minority Member Rangel, and other Committee Members played a key role in securing passage of this important Initiative.

Background

In early 1993, the Clinton Administration submitted to the Congress its EZ/EC proposal. It called for a holistic approach to community revitalization that blended the use of tax credits with flexible Federal grant funds. This Committee and the Congress approved that approach by passing landmark legislation, the Omnibus Reconciliation Act of 1993 (the Act). As a result of the Act, President Clinton announced in December, 1994, that 105 distressed communities around the country -- 72 urban and 33 rural -- would receive a combination of tax incentives and flexible block grants to implement 10-year strategic plans to promote economic opportunity and community-wide revitalization.

The EZ/EC Initiative represents the most significant Federal effort in decades on behalf of the nation's distressed inner cities. In an era of tight budgets, the EZ/EC Initiative is notable for its cost-effectiveness. We strongly encourage communities to use their Federal grants as seed money. By combining Federal grants, tax incentives, private sector investment and local government funds, communities are better able to address the problems they encounter. This approach, which is different from previous approaches, fits nicely into the priority President Clinton shares with the Congress -- balancing the Federal budget.

Principles

The EZ/EC Initiative is a ten year effort that is based on a comprehensive plan for revitalization developed by communities in partnership with residents, the private sector, non-profits, local and federal governments. Although designed as a 10-year effort, in just the first 30 months of the program, the EZs and ECs have begun to demonstrate significant success. We have found that when communities adhere to the basic principles of the program, they are more likely to make progress in implementing their strategic plans. Before I discuss the preliminary results being generated by the 10-year EZ/EC program, I want to discuss the basic principles of the program.

Performance Measurement System -- While the EZ/EC program is designed to achieve long-term results, and to be fully evaluated only after ten years, the program's design include an emphasis on results captured by periodic performance reports submitted by the zones and communities. Many Federal programs measure success by process-based measurements or by the level of funds expended. The EZ/EC Initiative is different from many government programs in that it measures results. The original EZ/EC designations were based on the strength of a community-crafted strategic plan. After designation, HUD required each community to develop specific performance benchmarks that, when properly implemented, would provide the blueprint for an entrepreneurial, no-nonsense way to distribute funds and to fulfill commitments. HUD periodically evaluates the progress that each EZ/EC has made in implementing its performance benchmarks. HUD is working closely with the EZs and ECs, the U.S. General Accounting Office (GAO), and others to make sure that the results captured in the performance benchmarks will assist in determining whether or not the urban EZ/EC Initiative is achieving its stated objectives.

Strategic Plan -- The EZ/EC Initiative is based on a community-generated strategic plan that was developed in partnership with residents, the private sector, non-profits and government. Each EZ/EC developed its strategic plan through several months of intensive planning sessions with their local partners. The result was a unique strategic plan that addressed community needs in the areas of economic opportunity, job training, affordable housing, public safety, infrastructure, childcare, family support centers, health care and others. In order to implement their strategic plans, communities developed performance benchmarks to identify the activities required to achieve their goals and the time-frame over which the activities would be completed. The performance benchmarks trigger continued funding of the strategic plan objectives and they help to assure public accountability.

10-year program life -- This principle recognizes that there is no "quick-fix" solution to the problems facing EZs and ECs. It will take time to turn distressed neighborhoods around, and a measured, patient approach is required to combat the decline. Over the ten-year life of the program, communities must implement their strategic plans by using their Federal seed money to leverage other resources, to develop active resident-based governance mechanisms, to develop a strategic partnership with the private sector, and to work with Federal and local governments to improve the delivery of services to residents and business in the distressed neighborhoods. This "sustainable approach" to community revitalization is based on progress over a ten year time frame and not merely on the amount of Federal funds spent on the program.

Bottom-up Approach -- This principle recognizes that the individuals closest to the problems of the community know best how to solve them. Residents in distressed neighborhoods are now directly involved in crafting solutions to the problems they face -- creating a bottom-up relationship between government and community.

Community Based Partnerships -- The road to economic opportunity and community development starts with broad participation by all segments of the community. The EZ/EC Initiative is designed as a partnership between local residents, all levels of local government including states, counties and cities, the private sector, non-profits and the Federal government. Partnerships with these players, particularly the private sector, will help to leverage the Federal EZ/EC seed money and help to sustain the revitalization efforts over the ten-year life of the program.

Mix of Funding Sources -- The EZ/EC Initiative combines tax incentives for business development with performance-oriented flexible block grants. Tax credits are needed to create more economic opportunity in distressed neighborhoods. But we have also learned from the first round that communities need flexible grants to undertake a broad range of revitalization activities including community policing, health care, neighborhood development, support for financing of capital projects, workforce preparation, efforts linked to welfare reform; and financing a range of housing activities. We cannot promote business development and just assume residents will automatically benefit from the creation of new jobs. Before becoming gainfully employed, many EZ/EC residents need job training, daycare, and other services that will assist them in becoming productive workers. We strongly believe that the best way to achieve sustainable community revitalization is to combine the use of tax incentives with flexible grant funding.

Reinventing Government Response -- The EZ/EC Initiative asked local governments to reinvent their programs to improve the delivery of services to distressed communities. The Federal government followed course by creating the Community Empowerment Board (CEB). The CEB consists of over fifteen Federal agencies and organizations working to improve the delivery of services to the EZs and ECs. The CEB encourages the Federal agencies to provide additional funding, technical assistance and to cut government red tape for EZs and ECs. To date, the Federal agencies have waived over 220 burdensome Federal regulations for EZs and ECs. Under Vice-President Gore's leadership, Federal agencies such as HUD have coordinated their efforts to provide Federal funding preferences for EZs and ECs. The Federal government has also worked diligently to improve coordination between programs. A prime example is the Small Business Administration which has established One-Stop Capital Shops in a number of zones. Another example is the EPA and HUD. They are working together with EZs and ECs to coordinate the Federal government response to the Brownfields problem. Led by HUD, the Federal agencies have worked closely with EZs and ECs to provide technical assistance to get revitalization projects completed. In summary, the Federal government has worked to make the EZ/EC program a success and we remain committed to improving the delivery of services to distressed communities.

Assessing the program

The EZ/EC Initiative cannot be completely evaluated until the completion of its ten-year life, but HUD is taking steps to make sure that interim results are captured and lessons learned are used to improve the Initiative. HUD has hired a private consulting firm, Abt Associates, to perform an interim impact assessment that will examine the

EZ/EC sites' interim progress toward achieving community revitalization over their first five years of operations. Abt will also perform the long-term impact study to assess program outcomes after ten years. For the interim impact assessment, Abt has designed a research approach that entails two major components; a national analysis that will examine the efficacy of the national program design and measure progress across zones in achieving key outcome measures; and a series of local analyses conducted by local research affiliates that will be customized to the development strategies of the EZ/ECs. The national cross-site analysis will focus on economic indicators, including job creation, business expansion and the employment of zone residents. The local analyses will provide an in-depth examination of a sample of 18 EZ/EC sites, and will address a broader range of outcome measures appropriate to local strategies.

Another independent evaluation of the EZ/EC program worthy of mention is the recently completed U.S. General Accounting Office (GAO) review of the big six empowerment zones. The GAO report identified factors that helped and hindered EZ planning and implementation. We generally agree with their findings and will continue to work closely with the GAO as they continue to study our Initiative.

Performance Evaluation

By statute HUD is required to make periodic determinations as to the progress EZs and ECs make in implementing their strategic plans. In support of this periodic assessment, the Department has considered the following sources of information when evaluating the performance of each EZ/EC:

- Performance Benchmarks submitted by the EZ/EC which identify actions taken in accordance with the community's Strategic Plan. These reviews provide specific performance measures for each activity undertaken by the EZ/EC.
- Additional information submitted by the EZ/ECs that may not have been captured in the performance benchmarks.
- Reviews and assessments conducted by the Department's Office of Community Planning and Development Field Offices, including on-site monitoring of EZ/ECs.
- Progress reports filed by the State agencies designated to Administer the EZ/EC block grant funds.
- The General Accounting Office report "Status of Urban Empowerment Zones."
- A review performed by Price Waterhouse of Empowerment Zone investment activities.
- Consultations with the Department of Housing and Urban Development and Department of Health and Human Services (HHS) Secretary's Representatives and the Federal Community Empowerment Board.

Preliminary Results

In March 1997, Secretary Cuomo announced the results of the first round of performance evaluations which showed that sixty-seven of the seventy-two urban EZ/EC's are showing good progress. The Secretary stated:

> "Our performance reviews show that, at this early stage, the vast majority of Empowerment Zones and Enterprise Communities are already showing real, and in some places, substantial progress. The overall picture we get from these reports is that nationwide, the zones are stimulating billions of dollars in private investment, beginning to revive inner city neighborhoods once given up for dead, creating jobs and helping families move from welfare to work."

Nationally, the vast majority of EZ/EC programs are doing well, and individual examples of success from some of the EZs and ECs help to capture the excitement and successes occurring in many cities across the country. The performance report executive summaries provided to Committee Members contains numerous examples of those successes. In addition, HUD has have published a report on EZ/EC best practices called, "What Works," which is also contained in your background package. In summary, preliminary results show that in the vast majority of cases, the EZ/EC Initiative has been a catalyst for revitalization and has provided real momentum for positive change.

Conclusion

During the first thirty months of the ten-year EZ/EC Initiative, EZs and ECs have evolved from establishing governance structures and performance benchmarks to actively implementing programs that will help to revitalize their communities. It has not always been easy, but we are making progress thanks to a strong partnership between government, the private sector, non-profits and community residents. The EZ/EC Initiative is creating jobs, residents have more opportunities to better their lives, and in general, many communities are improving. But more can be done to revitalize our inner cities.

On June 23, 1997, the President issued the "State of the Cities", report. The Report shows that -- while cities are on the rebound after two decades of decline -- the shift of jobs and people to the suburbs continues. In response to these challenges, the

President re-committed Federal efforts to revitalizing inner cities, the hallmark of which was a second round of Empowerment Zones. In August, President Clinton signed into law the Taxpayer Relief Act of 1997 (TRA). The TRA creates 20 new Empowerment Zones (15 urban & 5 rural) which, when designated, will receive various tax incentives. While this is a good first step, the proposed twenty new zones need flexible Federal grant funds to succeed, and flexible funding has yet to materialize. The Department strongly supports direct flexible grant funding to accompany the tax incentives included in the Taxpayer Relief Act of 1997.

The continued success of the urban revitalization efforts begun during the first three years of the EZ/EC program will require a strong commitment on behalf of all federal, state, and local leaders. On behalf of Secretary Cuomo, the Department looks forward to working with the Ways and Means Committee to meet this challenge.

Chairman JOHNSON of Connecticut. Thank you very much.

Dr. SCHOLZ, you give the example of the corporation that has an operation in both Detroit and Atlanta. Would it be hard to, early on in the process like this, to get the companies to report differentially on their tax return what portion of the wage credit is ascribed to each enterprise zone?

It seems to me in the long run we will want that information, and we ought to make that clear at the beginning. In their work papers they must have done it, anyhow.

Dr. SCHOLZ. Right now, to take the wage credit, the company is filing Form 8844, and companies typically file their tax returns on a consolidated return basis. No tax rules, however, are written in stone, and so I can go back and talk both to the Internal Revenue Service and our office to see whether that is something that is feasible. Surely the companies internally have that information, and so it may well be something that we can do.

Chairman JOHNSON of Connecticut. Thank you. I would appreciate it if you would do that, and also, talk with your department about any other disaggregation of data that we ought to look at at the beginning, so that over 5 years and 10 years we do have some understanding of this that will be a sounder foundation for the future.

I personally, for instance, am very interested in whether expensing is a more powerful incentive than some of the other incentives. We have people urging us to do nothing but zero capital gains. How do we evaluate the use of these incentives, and how do we get some input from the very beginning as to whether the wage subsidy was far more important, and maybe on-the-job training subsidies would be more important than property tax relief or capital gains relief or corporate tax relief at the State level or expensing at the Federal level. And it may be that expensing is more important in communities like Mr. Hinchey's where you have a lot more small businesses, and other things are more important in our kind of communities.

I think it would be a mistake not to recognize that right now our way of collecting tax information from companies participating in enterprise zones is inadequate to our needs. So, if you would, get back to your staff about that and get back to us about their thoughts and working with Mr. Glaser. I don't think that we can even evaluate the tax portion of this program with such gross information.

Dr. SCHOLZ. Right. We can start to, I believe, learn something about effectiveness, about the mix of different incentives, as you mentioned, since there is variation across the enterprise communities, the first round enterprise zones and the second enterprise zones. So by examining the difference in development outcomes across those different areas, we should be able to learn some things about the effectiveness of different incentives.

Then, of course, we have some experience on worker training programs and efficacy of capital gains tax reductions from other contexts; but your point is very, very well-taken.

Chairman JOHNSON of Connecticut. Well, will you be able to tell us, for instance, in 5 years how much of the enterprise zone money was spent on expensing and how much of that expensing was used by companies of XYZ sizes?

Mr. SCHOLZ. That specific question we should be able to answer. Now, trying to get the specific geographic answers for areas, as my oral remarks made clear, will be more difficult without moving further in the direction that you suggest, which of course requires a careful trade-off between the increasing taxpayer reporting burdens and the benefits of the knowledge that we gain. I recognize and I am quite sympathetic to your suggestion, that given it is a new program, we need to learn something about it, such that the increase in knowledge is very worthwhile.

Chairman JOHNSON of Connecticut. I am very concerned with the bureaucratic reporting requirements. On the other hand, if we look at what companies would normally be developing, what information they would normally be developing anyway to do their taxes and what portion of that background information would be useful to us, to maybe do that on a supplemental basis in enterprise zones might very well be worth it. I think it is important to make those determinations early.

Dr. SCHOLZ. No question about that.

Chairman JOHNSON of Connecticut. It is also very important to be able to do it geographically. I, as a Member from the Northeast, am increasingly sensitive to the extraordinary regional differences that are totally and completely nonpartisan. Representing the oldest manufacturing region in the country, brownfields are a much bigger issue. If you are in Arizona and you have only been manufacturing a few decades, brownfields aren't such an issue. Some of the interaction of the programs and interaction of portions of the tax bill in these regions, we also need to be able to track, so I would be interested in your getting back to us about that.

Dr. SCHOLZ. I sure will.

[The following was subsequently received:]

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 20, 1998

The Honorable Nancy L. Johnson
Chairman
Subcommittee on Oversight
Committee of Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Johnson:

At the October 28, 1997 hearing on Performance of the Empowerment Zone/Enterprise Community Program before the Subcommittee on Oversight, Committee of Ways and Means, you requested a written response from Treasury to three questions. On March 10, I responded to the first two questions describing Treasury's concerns with the tax incentives in the American Community Renewal Act of 1997 and the costs and consequences of not making the Empowerment Zone designation a competitive process. Your third question requested information on the costs of requiring businesses to report the portion of the Empowerment Zone wage credit and additional expensing attributable to each Empowerment Zone. This letter responds to your third question.

I apologize for the delay in my response, but we have explored gathering the data on Empowerment Zone (EZ) tax incentive use by zone from tax returns as well as alternative approaches. I share your interest in this information, since evaluations of the effectiveness of the Empowerment Zone tax incentives would benefit from the availability of the data.

Unfortunately, obtaining information on EZ tax incentive use by zone from Federal tax returns would increase compliance costs for taxpayers and require diverting critical Internal Revenue Service (IRS) resources for processing this information. This is contrary to the desire of both the Congress and the Administration to reduce taxpayer compliance burdens and to focus IRS resources on resolving its most pressing problems, such as dealing with the year 2000 computer problems.

The increased burdens on both taxpayers and the IRS is greater than might appear initially. While additional information on eligible wages paid and additional expensing by zone would only have to be provided by those zone businesses claiming these tax benefits, this information is currently not solicited on the relevant tax returns. Moreover, most of the tax return information received by Treasury and the Joint Committee on Taxation comes from a statistical sample of returns compiled by the Statistics of Income (SOI) Division of the IRS. However, these samples are designed to represent the U.S. population of businesses and are unlikely to adequately represent businesses operating in the EZs. This means that the IRS would have to transcribe the additional data as the returns are processed and develop programs to extract the information. This is a costly approach and our experience suggests may produce data of uneven quality.

Given these realities, we have been working with the Department of Housing and Urban Development (HUD) to get access to the data they collected for tax year 1996 on EZ tax incentive usage by zone. These data are based on a survey carried out within the last year that is to be repeated in 2000. Unfortunately, the initial survey did not request information on the value of tax incentives used by zone businesses. However, we are working with SOI on obtaining reliable information on the total Empowerment Zone Employment (EZE) credit usage for 1996. This information, when combined with the HUD information, may enable us to speculate on credit usage by zone. We did not pursue obtaining similar aggregate tax information on the additional expensing since the IRS' cost of gathering the information was high while the revenue loss is likely to be relatively low. While surveys of businesses in each EZ could be done to estimate the usage of these tax incentives, this is very expensive. Indeed, HUD plans for only three surveys to be done over ten years just within the six original urban empowerment zones.

I hope this discussion of the prospects of collecting EZ tax incentive data by zone from the tax returns clarifies why we do not intend to pursue collecting data on a zone by zone basis. Instead, to develop the data to evaluate the use of the tax incentives in each zone, we have focused on obtaining more reliable data on annual total EZE credit use that would supplement HUD's special survey work.

Sincerely,

John Karl Scholz
Deputy Assistant Secretary
Tax Analysis

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 10, 1998

The Honorable Nancy L. Johnson
Chairman
Subcommittee on Oversight, Committee of Ways and Means
House of Representatives
Washington, DC 20515

Dear Ms. Chairman:

At the October 28, 1997 hearing on Performance of the Empowerment Zone/Enterprise Community Program before the Subcommittee on Oversight, Committee of Ways and Means, you requested a written response from Treasury to three questions. First, you requested a more detailed description of Treasury's concerns with the tax incentives contained in H.R. 1031, American Community Renewal Act of 1997. In particular, you requested some examples to illustrate our concerns with providing a zero percent rate for capital gains from the disposition of certain property connected to a renewal community. Second, you requested Treasury's views about the costs and consequences of letting any community that is willing to undertake the planning process and meets certain criteria have access to the Empowerment Zone tax incentives. Finally, you requested information on the costs of requiring businesses to report the portion of the Empowerment Zone wage credit and additional expensing attributable to each Empowerment Zone. This letter responds to your first and second questions. We are continuing to work with the IRS to gather the information necessary to respond to your third question and will provide it as soon as we have it available.

American Community Renewal Act of 1997

The American Community Renewal Act would authorize the designation of one hundred renewal communities. The legislation would also provide the following tax incentives for residents and others doing business in those communities.

- zero percent rate on certain capital gains,
- a commercial revitalization tax credit,
- additional expensing for small businesses,
- expensing of costs to clean up "brownfields" in renewal communities,
- expansion of the work opportunity tax credit,
- family development accounts (an IRA-type savings account),
- low-income educational opportunity scholarships, and
- a charitable contributions tax credit.

We have a number of policy concerns with the American Community Renewal Act. Specifically, the proposed incentives would be a costly and relatively inefficient mechanism for assisting distressed communities. Many of the tax incentives proposed in this bill were considered and rejected by the Administration during the development in 1993 and 1996 of tax incentives for the first and second rounds of Empowerment Zones. In particular, while the capital gains and revitalization tax credit are likely to shift some economic activity into the targeted areas, most of this activity will be simply displaced from elsewhere, most of the tax incentives will go to existing businesses, and much of the benefits of the investment incentives will go to existing owners of capital and land. Below is a summary of our concerns with the specific tax provisions proposed in the legislation.

Renewal community selection. The process and criteria for selecting renewal communities would be similar to that of empowerment zones (EZs) and enterprise communities (ECs). For example, to qualify as renewal communities, areas must have at least 20 percent poverty rates, 1½ times the national unemployment rate, and at least 70 percent of households must have incomes below 80 percent of the median income of households in the jurisdiction. However, the specific standards for renewal communities, particularly with respect to poverty rates, would be less stringent, meaning that the tax incentives would be less well targeted to communities in need. Less targeted incentives are more likely to be inefficient at encouraging redevelopment of these areas. Moreover, the concurrent designations, such as a renewal community EZ versus an EZ, are likely to increase administrative and compliance costs of the program.

Zero percent rate on certain capital gains A zero percent rate would apply to capital gains received from the sale of certain business property and assets that are held for more than five years. The assets must consist of property used in, or a partnership interest or stock of, a business that meets certain eligibility requirements during substantially all of the time the taxpayer holds the asset. The eligibility requirements relate to the type of business, where the business operates and who it employs. For example, at least 35 percent of employees must be renewal community residents.

Numerous problems arise from any attempt to use lower capital gains rates as incentives to spur new, meaningful investment in any given geographic area. Generally speaking, a reduction in capital gains rates (even to zero) will not provide an incentive to invest in depreciable property that the business would not otherwise buy since the property is unlikely to increase in value above its cost. Thus, a zero percent rate on gains is unlikely to prompt the increased investment in machinery or equipment which is so often necessary to spur job growth. Nor will there be any benefits to businesses that earn their return through current cash flows that are taxed at ordinary income rates -- whether through sales of inventory or by providing valuable services to their customers. At the same time, however, certain businesses with property in the renewal community could earn large one-time "windfall" profits -- for example, from the sale of property near a site chosen for a large public attraction such as a sports arena -- without making any new investments related to job growth or spurring the local economy.

Finally, the ability of taxpayers to deduct interest on borrowing while entirely excluding the gains from the sale of some property, can create negative tax rates like those associated with the tax shelters of the 1970s and 1980s. For example, a taxpayer who borrows $100 at 8 percent and invests in an asset qualifying for the zero rate would make an after-tax profit even if the return on the investment were as low as 5 percent, generating a 3 percent before-tax loss. The attraction of this tax arbitrage could be expected to result in non-productive investments that benefit neither the targeted area nor the country as a whole.

Commercial Revitalization Tax Credit. A commercial revitalization tax credit is an allocated, 20 percent tax credit for non-residential building investment in designated areas. Up to $2 million in credits per State can be allocated in any year with a maximum of $10 million in a specific building expenditure being eligible for the credit. Investment tax credits can result in significant misallocation of investment within and between industries, particularly since the resulting effective tax rates are likely to be negative. In the extreme, taxpayer investment may be purely tax-motivated in order to shelter other income from higher taxes. These tax shelters tend to benefit higher income taxpayers and would do little for residents in the distressed areas.

Additional expensing The bill expands the current EZ expensing provision, making an additional $35,000 per year of expensing available for depreciable property used in certain qualified renewal community businesses. This incentive is available only to small businesses since the deductible amount phases out. Compared to the other tax-based incentives for capital investment, this approach is less likely to be abused. However, capital incentives in general do little to encourage employment of renewal community residents. Moreover, given that some renewal communities will also be EZs, the expensing thresholds will vary among renewal communities and make administrative and compliance costs higher.

Brownfields expensing Expensing treatment for the cost of cleaning "brownfields" sites in economically distressed areas was included in the Taxpayer Relief Act of 1997. Thus, the provision in the bill would not add to the benefits available under current law.

Extension of the work opportunity tax credit (WOTC) The bill would create a new target group consisting of renewal community residents who work in a renewal community businesses. Requirements would be similar to those for the EZ wage credit; for example, wages paid to these employees would be eligible for the credit only if substantially all the services provided by the employee are provided within the renewal community. In addition, renewal community youth would receive the same treatment under the WOTC as is available to EZ youth. The relatively loose criteria for defining a community suggests that the hiring incentive is likely to lead to "cherry picking" whereby employers will get the credit for paying wages to renewal community residents who would have been hired without the incentive. The Administration had a similar concern in connection with the employment incentive it proposed for the District of Columbia last year and dealt with this issue by including an income ceiling for those eligible for the credit based on residence.

Family Development Accounts (FDAs) An FDA would be a special savings account for renewal community residents who received the earned income tax credit (EITC) in the previous year. Individuals would be able to make up to $2,000 per year in deductible contributions to one of these accounts. Earnings would accumulate in the account tax-free, and could be withdrawn tax-free to pay college expenses, first-home purchase costs, expenses for starting a business, and medical expenses. In 25 of the renewal communities, the federal government would match up to 50 percent of an individual's contributions. Treasury believes that few low-income individuals would have the resources to take advantage of these savings incentives. Adding this provision to the Code would create administrative costs without providing meaningful benefits to low-income residents of these communities.

Low-income educational opportunity scholarships The bill proposes to have the federal government provide tax-free scholarships to renewal community children attending elementary and secondary schools. The renewal community could allocate funds to families with incomes of less than 185 percent of the poverty line. Although the tax treatment of these scholarships would not vary from that provided by current law, the Administration believes that scarce federal resources should be used to strengthen public schools that are available to all the children living in distressed areas, rather than to enable a limited number of families to send their children elsewhere.

Charitable contributions tax credit The bill provides a credit for 75% of charitable contributions made to certain charities that aid the poor. The credit would be limited to $100 per taxpayer per year. To be eligible for the credit, contributors must perform 10 or more hours of volunteer service during the year for the charity. Treasury is concerned about making distinctions among charities based on the percentage of time or resources they devote to helping the poor. The legislation fails to recognize the value of the benefits that many educational, religious and cultural organizations provide to low-income individuals if the organizations provide the same service to individuals with higher incomes. For example, contributions to a school that provides full scholarships to dozens of poor children each year would not qualify if the majority of its students paid tuition. Moreover, this provision is likely to be difficult to administer and may encourage taxpayer fraud as well as high compliance costs for both charities and taxpayers. The IRS currently determines whether an organization is organized and operated exclusively for charitable purposes, but it does not evaluate whether a charity predominantly provides assistance to individuals with incomes generally less than 185 percent of the poverty line. The legislation would require the IRS to provide certifications not only for new charities, where it would have to be added to the determination letter process, but also for the thousands of existing charities that would want to benefit from the new credit.

Less Targeted Empowerment Zone Tax Incentives

Although Treasury has not estimated the cost of enabling any eligible community to take advantage of the EZ tax incentives, it is likely to be very expensive. TRA 97 authorizes the federal government to designate two additional first round, urban EZs. The estimated cost for the two additional zones is approximately $0.6 billion over 10 years. Given that approximately 500 communities applied for first-round EZ designation and did not receive it, the costs of allowing all interested communities to be designated as EZs could clearly be significant.

Moreover, limiting the incentives to communities with the greatest needs and best strategic plans makes the incentives more efficient. Opening EZ designation to any community that wants it is likely to send resources to communities that are less in need of the assistance or that are less well equipped to use the incentives to generate new jobs and new development in the community. Finally, increasing the number of communities eligible for these incentives will significantly increase the administrative costs for the IRS and compliance costs for taxpayers.

I hope this description of Treasury's concerns with the tax incentives contained in H.R. 1031 and our views about letting any community that meets certain criteria have access to the Empowerment Zone tax incentives is satisfactory. I will respond to your other question as soon as possible.

Sincerely,

John Karl Scholz
Deputy Assistant Secretary
Tax Analysis

Chairman JOHNSON of Connecticut. Mr. Glaser, if you could just run down a few of the kinds of practical things. You mention in your report about what works in the enterprise zones and the general matter of comprehensive planning being an asset, performance measurement being an asset, interagency coordination being an asset. Could you give us some examples of what works?

Mr. GLASER. I'd be delighted to. I want to point out, also, that we have published last year a book called "What Works In The Empowerment Zones/Enterprise Communities." This is a best-practices type of manual.

One of the points of this program was to find out what works, use these 72 cities as laboratories for urban experimentation, and then import the ideas that worked to other communities. Congressman Rangel talked about even the communities that lost won just by going through this process, and, in truth, they can use many of these ideas in their own communities. You can find a whole wealth of them in our Best Practices Guide. The information is also on the Internet, and there are all kinds of ways to access this information.

A couple of highlights would be: First, the utilization of the Federal money is not to fund at 100 percent as in traditional grant programs, but as leverage, a small amount of money to leverage a large amount of private capital. In the first 24 months of the program, communities committed approximately $200 million of the Federal Title 20 money. There was approximately $2.7 billion of private investment reported during that period. It was a very good ratio, and that is exactly what we sought to have occur, so that is one example.

One way they did that especially is through community development banks in Los Angeles, in Louisville, in Baltimore, including some of the rural zones as well. The Mississippi Delta created empowerment zone banks that enabled us to mix the private sector leverage along with the Federal money to make more of it than they originally had. So I would say that if there was one thing that came out of the process, it was that you could use the Federal money that way.

Chairman JOHNSON of Connecticut. Thank you. Would you care to comment on this issue that is going to come up later in the hearing, on outputs versus outcomes as a weakness of the measurement?

Mr. GLASER. Well, as a starting point, performance measurement is a critical piece of the program. At the beginning of the process communities were asked to set specific measurable goals for each of their activities, providing both themselves as residents and local investors as well as the Federal Government a way to know whether or not we actually accomplished something other than how much money did we spend. That process went on, and I think has been a successful one.

The issue that you raised and that the GAO raised is what is it that you exactly want to measure, an output versus an outcome? And we are trying to make our measures more outcome-oriented. I will give you an example of what we are talking about here.

Suppose a community has a goal of immunizing children, and what we would call the goal, the benchmark would be let's immunize 10,000 children who had not been immunized. That is specific.

It is achievable. It gives them something both to shoot for and to be measured against.

GAO takes a slightly different point of view. They say outcomes, we want to look did the rate of infection, for the disease go down. We are concerned about taking that approach because there are so many external factors to whether or not you will be able to achieve that goal. Economy is another one, number of jobs that you project that you want to produce versus the effect on the unemployment rate in the area.

Obviously, with the stock market going up and down, as we can see today more than ever, who knows what the outcome is going to be in local inner-city economies, and how can you hold accountable local communities for things that they do not have within their control? That is what that debate has been about. We all agree we need to be more performance-based. A little bit of discussion goes on as to whether or not that should be output versus outcome.

Chairman JOHNSON of Connecticut. Thank you very much.

Mr. Coyne.

Mr. COYNE. Thank you, Madam Chairwoman.

Mr. Scholz, From what you have witnessed so far of the program, What would be the most important improvement we would make in the program?

Dr. SCHOLZ. That is a very difficult question. My take on the program is it is very new and I think it is a very promising approach for community development. There has been tremendous positive response from communities in the process of making applications. That tells us that there is a very sensible mix of incentives for labor and capital in the program.

The one thing to improve the program (it is almost a negative thing that I am going to say) is that it needs to be given time to work. In this way, we learn even more from the kinds of things that HUD is doing and disseminate information on the program to other communities so that they can see what are promising economic development processes. However, this requires giving the program time to work. It is very new. We want to see what is going on.

Mr. COYNE. So you really haven't had a chance to be able to formulate some response that would improve the program?

Dr. SCHOLZ. Well, we have made very important administrative changes to the program between the so-called first-round designations and the second-round designations. I mentioned in my oral remarks the bonds program wasn't working very well, bonds weren't being issued. So we developed, in working with Congress, a new bond that is going to be a much more flexible development tool.

In addition, businesses were very concerned about whether they were, in fact, in an empowerment zone or enterprise community. In response, HUD and the Department of Agriculture set up a 1–800 number so businesses can find out. Further, the definition of "enterprise zone businesses" has been relaxed to make these incentives a more successful economic development tool. Those sorts of changes have, I think, been quite important improvements.

Mr. COYNE. What did you think of Congressman Hinchey's idea about local banks being able to issue the bonds?

Dr. SCHOLZ. Treasury has typically been quite reluctant to extend tax-exempt bond financing to financial institutions. Tax-exempt bonds are, I think, a more useful economic development tool when issued directly to the people who will use the proceeds rather than to intermediaries, but the idea is certainly worth additional consideration.

Mr. COYNE. So you wouldn't close your mind to looking at that proposal?

Dr. SCHOLZ. Not close our minds, no.

Mr. COYNE. Relative to Congressman Watts' and Congressman Talent's and Congressman Flake's legislation, H.R. 1031, would either you or Mr. Glaser want to make any comments concerning the need for this legislation or the impact of this bill?

Dr. SCHOLZ. I would like to make two brief comments, and then perhaps my colleague would also.

The EZ/EC program is targeted on very distressed communities. The poverty rate in the Atlanta EZ, I believe, is 50 percent. The poverty rate in the Chicago EZ is 49 percent. These are very distressed areas. The American Community Renewal Act has a much broader definition for "renewal communities." For place-based development strategies to work effectively, I believe they need to be narrowly targeted. That is one policy concern.

The second policy concern is over the mix of incentives in the American Community Renewal Act. For example, the zero percent capital gains rate invites tax sheltering activity. People are very clever in manipulating these kinds of incentives so that the price of property transferred between related businesses is advantageously altered. There is a myriad of ways of exploiting those tax shelters, and I am afraid that would be an unproductive kind of use of Federal money.

Similar concerns arise with the revitalization tax credit and other provisions of this proposal. So we have policy concerns.

Mr. COYNE. Mr. Glaser.

Mr. GLASER. Not really too much to add to that. We certainly are very supportive of any efforts to enhance these targeted kinds of efforts. The question is whether or not there are going to be conflicts or confusion among communities that are designated, that now have a separate mechanism or new bureaucracies perhaps to implement the legislation. I think that is something we have to look at.

Mr. COYNE. Thank you.

Mr. WATKINS. Madam Chair, members of the panel, I am delighted you are here today, but I come alarmed and concerned. Madam Chairman and Mr. Coyne, my colleagues, I have had a longtime commitment to empowerment communities, enterprise zones. When I served in Congress previously, I worked with Jack Kemp on this subject. We got one-third of the enterprise zones set aside for rural areas of this Nation, because originally the legislation didn't have any planned for rural areas, and I was deeply bothered by that. Therefore, I was talking to my good friend, Mr. Rangel from New York, a while ago about this rural set-aside.

Poverty is poverty, and there is no greater, deeper poverty than in the small economic rural communities where people are scattered and their voice is faint and no one is there to hear. You know, the riots in Watts, California, back a number of years ago started from a young lad that his parents left Oklahoma and went there and caused social problems. I have told people the largest migration of human beings ever recorded in history was from small rural areas of our Nation, the farms and all, into the urban centers, the shipyards and manufacturing plants of this country, the Grapes of Wrath to the Great Depression.

I came along about 10 years after that, and I know my family had to leave three times, Madam Chair, from rural, economically depressed Oklahoma and Arkansas in search of jobs. I went there three times as a youngster picking up potatoes and onions. That was pre-Caesar Chavez days, basically. But no one would sound the alarm, and it created social problems in the inner cities but also created socioeconomic problems in the rural areas.

I am glad one-third of them have been set aside for rural areas. But I am deeply concerned. We have got to have someone at the table. I notice part of the panel is Mr. Robertson from Agriculture. Is he here?

Madam Chair, why isn't someone in that panel right there, right now, speaking up for small cities and rural communities, depressed areas, greater depression. I know in Oklahoma our capital income is 80 percent of the national average. In the rural economically depressed areas it is probably 40 percent of the national average, and I am a product of that. It is something, my whole public life is to try to change it. I endorse, you bet, I am a champion in trying to preach the gospel of what this can do to help our areas.

So let me say I am glad you are here, but I would like to think there would be someone there and there would be someone behind you that represents the rural areas and the rural empowerment communities and the economic areas there. Let me just ask the question. I noticed under the '97 act, Mr. Scholz, from your testimony, there are 2 additional first-round EZ's and 20 second-round EZ's, and the two first rounds are from urban areas.

Why isn't there at least one for the rural areas?

Mr. GLASER. I guess my understanding is that our understanding of the law, which is a little bit perhaps unclear, is that the intent and the emphasis in the budget agreement was that those two additional zones were, in essence, upgrades of the two existing supplemental empowerment zones which did not harbor tax purposes.

Mr. WATKINS. In other words, it is political. You know, if there are two for the urban, there should be one for the rural areas. I mean, Madam Chair, I hope you will focus on that. I don't have a big city. I have got rural economically depressed areas that have got a high percentage of native Americans. In fact, I was the only non-Indian on the baseball team when I was growing up as a boy, and I was a minority and I didn't know it.

But I would like to see one crafted that—I don't want it divided. I want the Native American and also the rural communities and rural economically depressed areas together, and we must have something together. Because if we make it separate, we are going to cause a greater division in this country, and I did not know, just as a lad, there is any difference in us as people.

But I am disturbed there is no one here around the table or invited to represent the rural areas. I don't know if that is an oversight on our part or oversight on your part or some others that we don't have someone here.

Mr. GLASER. If I could make one comment, I am here on the urban perspective. There are two lead agencies in the empowerment zone program. The Department of Housing and Urban Development does primarily the urban side, although it contains many smaller cities as well. And Secretary Glickman and the Department of Agriculture are the lead agency on the other side, and they can certainly brief you on what they are doing.

Mr. WATKINS. I understand that, but why aren't they sitting there? Is that our fault, or is it the fault of you folks?

Mr. GLASER. I can't answer that question.

Mr. WATKINS. Have we ignored that?

Mr. GLASER. I don't know if an invitation was extended to Agriculture.

On your point, Congressman, with the empowerment zones in the second round, there are 20 new empowerment zones in the second round; and of those 20, and I don't know that this was specifically in the oral statement, 5 of the new ones are rural zones. They are full empowerment zones in the second round. I just wanted to clarify that for the record.

Mr. WATKINS. I am just going on Mr. Scholz's testimony here where he says two new first-round EZ's are located in urban areas, and they increase to eight but not for rural areas.

Mr. GLASER. I believe that was really a technical fix from the first round. And the second round are the new zones, the 20 zones. And again, 5 of those are rural zones with the full package of tax incentives.

Mr. WATKINS. Let me ask for additional time. I know we have a time limit. I served on the Banking and Finance Committee one time, and the chairman set up a committee called The Cities and had New York, Chicago, Boston and one else there, and I sat there and not one small rural community. Ignored totally. That was on the Banking and Finance Committee.

And I took them to that rural economically depressed area finally. I had to shame them into it. And I remember one of the guys landed in Tulsa, wasn't there, and he didn't come to the rural area because he thought there was only one airport in Oklahoma. And I said, no, we had people waiting in Oklahoma City. And he said, "Well, don't worry about it. I will take a taxi." That was 120 miles away. He didn't understand in rural areas you don't take taxis.

But I ask the question, though, on the specifics and the meat of the subject here. How many businesses and industries have taken advantage of the tax provisions on the 20 percent wage-to-credit and also the additional 20 percent there?

Dr. SCHOLZ. We don't yet have the information to answer that question. We are going to have a complete census of the firms that have taken the incentives in 1996, and those data will be available early next year.

Mr. WATKINS. Run that back by me again.

Dr. SCHOLZ. We don't yet have reliable data to answer that question. But we are working with the Internal Revenue Service to get data for the calendar year 1996 to answer that question, and those data will be available early next year.

Mr. WATKINS. Madam Chair, that is all the questions. I would just like to close by saying I am genuinely alarmed that—I am a believer. I know in my area of the State we do have one, but I have got 21 counties and that covers just part of a county, part of two counties. Some areas do not have one single manufacturing firm. How do we build jobs? How are we able to provide gainful employment for the sons and daughters of people that are there? There is a tremendous work ethic. They want to stay and live and work and raise their families there.

And I understand the destruction of families because they have to leave in the search for a job. It destroyed my family as a youngster, and that is why I have devoted my life to try to change that area of the State of Oklahoma. I ask you to not lose the focus of the rural areas. They are crying out but you cannot see them.

Sometimes in big cities they just burn down the buildings and that gets attention. But the people can be dying, basically, out there in rural areas and it doesn't get much attention because their voice is scattered and it is faint. I am their voice to a certain extent here at this table, and I would like for someone to be on the other side of that table telling me what they are doing and how they are carrying it out and maybe have just as much attention for their efforts.

So, Madam Chairman, I appreciate you having these hearings, and I welcome more opportunities like this to share and talk about some of the problems there. Thank you.

Chairman JOHNSON of Connecticut. Well, thank you very much for your comments. We do hope that the last panel will be able to address both urban and rural experience. But we certainly will be, as we move forward, looking very carefully at rural experience as well as urban experience, though the third panel is primarily city mayors and people with urban experience.

There are a couple of questions of which I want to conclude. First of all, Dr. Scholz, it would be very helpful to me if you would put in writing your concerns about the tax incentives contained in the Watts-Talent bill, and particularly some examples of the kinds of things that could go on under zero capital gains provisions. It is not easy for me to imagine the gaming, and I am sure it is much easier for you. But I think we need to understand the problems that could be created through that mechanism as well as its opportunities.

Also, I would like both of you to think about what would be the cost and the consequences of letting any community who meets certain criteria have access to these incentives, because Wes has brought out a certain aspect of the problem of enterprise zones is that they create winners and losers. In my district it is a very significant problem. Adjacent small cities are treated differently and have different resources to attract jobs, though their community circumstances are the same. So one of the things I think we have to look at is, would it dilute the program to allow any community who was willing to undertake this planning process and who met certain criteria to have access to the same benefits?

If you would, get back to me on those two things. And then I do have a couple questions more for Mr. Glaser.

Mr. Glaser, GAO did interview participants in the urban EZ program about factors that constrained their efforts. And Dr. Scholz, you brought to our attention the importance of letting this program work. One of the things Congress has really done a terrible job on is letting programs work before they try to fix them.

Our goal is not to try to fix something, but to understand how it is working and to see whether or not it is accomplishing our policy goal, which was revitalizing the cities. Certainly I understand the problem of the media and the public and the private sectors all wanting quick action. That is not my concern. I understand that. We are going to have to deal with that.

But three issues of some substance were raised by the GAO interviews: First of all, the need for initial Federal funding for administrative activities, whether or not that is significant, legitimate, or whether that is a burden we legitimately should keep on the local community in your estimation; the issue of bureaucracy and layers, which Mr. Hinchey also pointed to; and then the most concerning issue that they raised was the problem of governance at the local level, and how you govern the planning process and how you govern the implementation process. And what happens if you govern the planning process and then turn the plan over to those who didn't make it and, therefore, aren't vested in it, and also were the very same people who didn't think of it to begin with and who had been governing for many years, and so on and so forth. We all know those dichotomies.

So would you just comment briefly on your thoughts about governance?

Mr. GLASER. You put your finger right on some of the key issues that came out, not only through the GAO study, but certainly borne out through other daily experience with empowerment zones, especially in the very early part of the program.

The governance issue, I will take that one first. You had a situation where in the application process you set the specific goal. You said, "By June 30th, 1993," whatever the date was, '94, "you must come together and put this plan together." And the community came together because they knew there was $250 million of tax incentives and $100 million of cash on the table, and suddenly all the problems tend to be subsidiary to the benefits that could be achieved.

Then they got the designation, and then you have some internal working out of the tensions that were under the surface, which have traditionally been there in these communities over the years and which began to percolate up again after designation. And it probably took, I think Congressman Rangel was correct, he said 6 months, I think even 8 to 10 months in the early stage of the program to work most of that through.

I think you would find today that if the GAO went back, that would not be a hindrance in these areas. In fact, I think you would find the fact that they worked through their local community tensions actually has strengthened the program. They had to go through that process, as you point out, of bringing the new people on board, and where they have done that successfully, they prospered.

On the second issue of the layers of bureaucracy, as was mentioned by both of the Congressmen—and we heard that issue before, and you may hear it in some of the other testimony here today as well—it has not been a widespread problem. But where State governments in particular have made a decision that they want to play—well, where they have let their bureaucracies, frankly, get involved, it has been a hindrance to the program.

On the other hand, where States have said, we want to be proactive, we want to put our resources on the table and be a partner, it has been a very, very big help. So it is not that State involvement, per se, is a problem, it is when it gets into the machinery of bureaucracies and suddenly you have got to fill out 20 forms in order to get money that you didn't need a single Federal form to fill out.

On the third issue of the administrative dollars up front, I think that was a legitimate issue by and large. There was no administrative set-aside, per se. The communities were under a lot of pressure, and, frankly, we put them under some pressure to minimize their administrative expenses. We want the maximum amount of money to go to the communities for the programs, not to find its way back to the city hall or to some new nonprofit to institute all this.

So we, I think, frankly, pressed pretty hard to keep all that down, maybe a little too hard. The communities came back and said, the truth is it takes a while to get this going, and if we are going to build a real capacity in our community to administer community development bank, we need administrative funds; don't beat us up for using administrative dollars.

And GAO, I think, was right in pointing out in the second round we ought to have some—whatever the number is, 5, 8, 10—percent of the dollars, that is for administration; you can't go over that; but we are not going to beat you up for using that money in the first place.

Chairman JOHNSON of Connecticut. Thank you.

There is one other question. In reviewing the applications, the original vision was that there would be a numerical scoring, that the specific criteria, such as the strategic plan, the level of innovation, the community partnerships, and the need, each one of those be examined and there would be a numerical score developed, and from that numerical score, choices would be made as to who would become the enterprise zones.

Since you have 500 applications, or basically 100 slots, how the winners were chosen is a very important issue. Why was numerical scoring abandoned?

Mr. GLASER. Well, numerical scoring was never intended to be used in the first place. When talking about how the typical Federal grant gets scored, you do it on a very quantitative basis and you assign numbers. We again said this should be a different program; let's make a qualitative determination as to whether or not the plan as a whole meets the specified criteria which were set out in the notice of funding availability.

We brought out, in one of the most unusual efforts, approximately 100 Senior Executive Service officials from around the Federal Government. These career officials worked on the task force for about 3 months doing an analysis of these plans that sometimes ran a couple hundred pages, an in-depth qualitative analysis. And based on that, final, I guess, cuts, you could say, were made of those that were better and worse, and I think there was consensus among that group by the end of the day that the right finalists had been in the selection process.

Chairman JOHNSON of Connecticut. Well, I am interested that you were thinking of bringing in some new people. But the Inspector General's report, Office of Inspector General audit report, says—and I quote—"The original documented design of the EC–EZ task force review process called for a rating of each application on a relative point scale, where points would be awarded for specific criteria, such as the strategic plan, the level of innovation, community partnerships, and need. Before the application interview process began, CDB officials decided that applications would not be numerically scored."

Now, when you bring in senior executive core people, you give them guidance, and I assume these were the factors they were asked to consider. But how do you eliminate, in a sense, the variability and subjectivity of these senior executive core people who are useful? And that was an interesting approach. But how do you avoid the possibility of favoritism and bias?

Mr. GLASER. Well, that is an interesting question. You have what is, basically, a subjective determination about quality of strategic plan. In fact, that is the major defined characteristic in the statute: They shall be based on the quality of strategic plan.

One executive's assigned number versus another executive's assigned number, it is very difficult to know whether they were looking at the same thing when they came up with their number for that quality.

And I will dissent a little bit from the piece of the report that you suggested. There was not a numerical—there may have been some discussion like this: What is the best way to make the judgment? But there was never a numerical scoring plan.

The approach that they determined instead was to have the executives reach consensus decisions, so that you forced the discussion, "Well, is this commitment of private sector resources, is it real? Is it better than this other community's approach?" And we thought by putting them all in the room together and forcing a consensus opinion that we could have a result that was more justifiable than if you simply said, "Okay, here's the points. Run down the point list." And, therefore, it may look like you have less documentation perhaps, but you might not get the right answers that way.

Chairman JOHNSON of Connecticut. So you are saying that after you made the rough cut, then, as a group, the senior executives reviewed the applications and held discussions of that kind of point?

Mr. GLASER. That is correct.

Chairman JOHNSON of Connecticut. Thank you.

Mr. Coyne, do you have any further questions?

Mr. COYNE. No, I do not.

Chairman JOHNSON of Connecticut. I thank the panel very much.

Next we will hear from the GAO. Mr. Czerwinski, associate director of housing and community development at the GAO; accompanied by Robert Robertson and Nancy Simmons.

Mr. Czerwinski.

STATEMENT OF STANLEY J. CZERWINSKI, ASSOCIATE DIRECTOR, HOUSING AND COMMUNITY DEVELOPMENT, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY: ROBERT E. ROBERTSON, ASSOCIATE DIRECTOR, RURAL AND AGRICULTURE ISSUES, AND NANCY A. SIMMONS, ASSISTANT DIRECTOR, COMMUNITY DEVELOPMENT ISSUES

Mr. CZERWINSKI. Madam Chairman and members of the subcommittee, we are pleased to be here today to discuss the Federal Empowerment Zone and Enterprise Community program.

As you requested, our statement is based primarily on our December 1996 report, which focuses on the six empowerment zones: Atlanta, Baltimore, Chicago, Detroit, New York, and Philadelphia-Camden. However, before that statement, I would like to note that to my right is Mr. Robertson, who is our associate director for rural and agriculture development programs.

Mr. Watkins, as we agreed with the committee, we would focus our statement today on the urban issues. However, Mr. Robertson has done a similar analysis of rural issues, and we are prepared in the questions and answers to discuss rural issues fully with you. So we want to try to give equal treatment to both urban and rural issues. This is something that we negotiated with the committee staff to try to cover both aspects of the program.

Mr. WATKINS. Very good. Thank you.

Mr. CZERWINSKI. You are welcome, sir.

Today I would like to discuss three issues from our report: The status of the program's implementation, factors that participants believe either helped or hindered the program, and the plans for evaluating the program.

In summary, we found that, first of all, the EZ's had in fact developed strategic plans which, as required, included details for implementing the program. They also drafted benchmarks to measure the progress, and they had established governance structures. The bottom line is that they had done the things that they were required to do.

We then asked the officials what kinds of factors helped or hindered them? I would categorize them as saying the glass is half full and half empty.

For example, the kinds of things that the EZ officials told us had helped them were community representation on governance boards; enhanced communications among stakeholders; assistance from HUD contractors, who are called generalists; and support from the mayor, the White House, and Cabinet level officials.

On the other hand—and you will see that it is a very similar type list, and that is why I say half empty, half full—the kinds of things that hindered them were difficulty in selecting an appropriate governance board, preexisting relationships among the stakeholders, lack of administrative funding, and pressure from the media and public and private sectors for quick results.

So it is sort of a mixed signal that we got back from the empowerment zone officials. And this probably makes the final point especially crucial, and that is measuring what has been accomplished.

Third, we found that the benchmarks that HUD had asked the EZs to establish had been compiled. But there is a critical issue here. These benchmarks describe activities that the EZs planned to undertake. In most cases, they indicated how much work they hoped to produce. These measures, in the typical methodological terms, are called "outputs." However, such outputs may not fully measure outcomes, or what you truly want to accomplish.

I would like to give you an example of that in Atlanta. We just happened to pick them. I could have used any of the EZs. They came first in the alphabet, so they got lucky for this example.

Atlanta established a single facility called the one-stop capital shop, whose objective was to obtain capital resources and technical assistance for business. The performance measure that they used to determine whether this was actually working included the amount of loans and the number of consultations provided. These are relatively good measures of the amount of work produced.

However, we believe the performance measures would have been more useful had Atlanta indicated how such outputs could help them achieve the desired outcomes that they really wanted to get for the community, i.e., economic opportunity, reducing unemployment.

We concluded that HUD and the empowerment zones and enterprise communities had made steady and commendable progress toward establishing output-oriented measures, and we believe they should build on these efforts.

Specifically, we think that HUD and the EZs should now start to focus on describing the measurable outcomes for key principles and then indicate how these outcomes can be achieved in the work outputs that they produce. Unless they can measure each EZ's progress towards these outcomes, HUD and the EZs will have difficulty in determining the overall accomplishment of programs and then identifying specific activities that each EZ has accomplished that then should be adopted program-wide.

This concludes my statement, Madam Chairman. I will be happy to answer any questions that you and members of the subcommittee may have.

[The prepared statement follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Oversight,
Committee on Ways and Means
House of Representatives

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COMMUNITY DEVELOPMENT

The Federal Empowerment Zone and Enterprise Community Program

Statement of Stanley J. Czerwinski
Associate Director, Housing and
Community Development Issues,
Resources, Community, and Economic
Development Division

Madam Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the Empowerment Zone and Enterprise Community (EZ/EC) program. This 10-year program is one of the most recent federal efforts to help our nation face the challenge of revitalizing its deteriorating urban and rural communities. The program targets federal grants to distressed urban and rural communities for community redevelopment and social services and provides tax and regulatory relief to attract or retain businesses in distressed communities.

As you requested, our statement today is based primarily on our December 1996 report,[1] which focuses on the six urban empowerment zones. That report discusses, among other things, (1) the status of the program's implementation in the six urban empowerment zones, which are located in Atlanta, Baltimore, Chicago, Detroit, New York, and Philadelphia-Camden (a bistate zone); (2) the factors that program participants believe have either helped or hindered efforts to carry out the program; and (3) the plans for evaluating the program.

In summary, we found the following:

- All six of the urban EZs had met the criteria defined in the program's authorizing legislation, developed a strategic plan, signed an agreement with the Department of Housing and Urban Development (HUD) and their respective states for implementing the program, signed an agreement with their states for obtaining funds, drafted performance benchmarks, and established a governance structure. However, the EZs differed in their geographic and demographic characteristics, reflecting the selection criteria in the authorizing legislation.

- Many officials involved in implementing the program generally agreed on factors that had either helped or hindered their efforts. For example, factors identified as helping the program's implementation included community representation within the governance structures and enhanced communication among stakeholders. Similarly, factors identified as hindering the program's implementation included preexisting relationships among EZ stakeholders and pressure for quick results.

- From the beginning, the Congress and HUD made evaluation plans an integral part of the EZ program by requiring each community to identify in its strategic plan the baselines, methods, and benchmarks for measuring the success of its plan. However, the measures being used generally describe the amount of work that will be produced (outputs) rather than the results that are anticipated (outcomes).

BACKGROUND

In August 1993, the Congress enacted the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993, P.L. 103-66), which established the EZ/EC program. The act specified that an area to be selected for the program must meet specific criteria for characteristics such as geographic size and poverty rate and must prepare a strategic plan for implementing the program. The act also authorized the Secretary of Housing and Urban Development and the Secretary of Agriculture to designate the EZs and ECs in urban and rural areas, respectively; set the length of the designation at 10 years; and required that nominations be made jointly by the local and state governments.

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[1] Community Development: Status of Urban Empowerment Zones (GAO/RCED-97-21, Dec. 20, 1996).

The act also amended title XX of the Social Security Act to authorize the special use of Social Services Block Grant (SSBG) funds for the EZ program. The use of SSBG funds was expanded to cover a range of economic and social development activities. Like other SSBG funds, the funds allotted for the EZ program are granted by the Department of Health and Human Services (HHS) to the state, which is fiscally responsible for the funds.[2] HHS' regulations covering block grants (45 C.F.R. part 96) provide maximum fiscal and administrative discretion to the states and place full reliance on state law and procedures. HHS has encouraged the states to carry out their EZ funding responsibilities with as few restrictions as possible under the law. After the state grants the funds to the EZ or the city, the EZ can draw down the funds through the state for specific projects over the 10-year life of the program.

The Clinton administration announced the EZ/EC program in January 1994. The federal government received over 500 nominations for the program, including 290 nominations from urban communities. On December 21, 1994, the Secretaries of Housing and Agriculture designated the EZs and ECs.[3] All of the designated communities will receive federal assistance; however, as established by OBRA 1993, the EZs are eligible for more assistance through grants and tax incentives than the ECs.

After making the designations, HUD issued implementation guidelines describing the EZ/EC program as one in which (1) solutions to community problems are to originate from the neighborhood up rather than from Washington down and (2) progress is to be based on performance benchmarks established by the EZs and ECs, not on the amount of federal money spent. The benchmarks are to measure the results of the activities described in each EZ's or EC's strategic plan.

STATUS OF THE PROGRAM IN THE SIX URBAN EZs

When we issued our December 1996 report, all six of the urban EZs had met the criteria defined in OBRA 1993, developed a strategic plan, signed an agreement with HUD and their respective states for implementing the program, signed an agreement with their states for obtaining the EZ/EC SSBG funds, drafted performance benchmarks, and established a governance structure. However, the EZs differed in their geographic size, population, and other demographic characteristics, reflecting the selection criteria. In addition, the local governments had chosen different approaches to implementing the EZ program. Atlanta, Baltimore, Detroit, New York, and Camden had each established a nonprofit corporation to administer the program, while Chicago and Philadelphia were operating through the city government.

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[2]SSBG typically funds state governments for social service activities. The amount of each state's grant from HHS is based on an allotment formula specified in title XX of the Social Security Act.

[3]The Secretaries designated a total of 104 EZs and ECs--6 urban EZs, 3 rural EZs, 65 urban ECs, and 30 rural ECs. Each urban EZ was allocated $100 million, each rural EZ was allocated $40 million, and each EC was allocated just under $3 million in EZ/EC SSBG funds for use over the 10-year life of the program. In addition, businesses located in an EZ would be eligible for tax credits on wages paid to employees who live in the EZ and increased deductions for depreciation. Both EZs and ECs could use tax-exempt state and local bonds. HUD's Secretary also designated six communities as Supplemental Empowerment Zones and Enhanced Enterprise Communities. Unlike the other EZs and ECs, these communities each received grants through HUD's Economic Development Initiative (EDI). The supplemental zones, located in Los Angeles and Cleveland, received EDI grants of $125 million and $87 million, respectively. The enhanced communities, located in Oakland, Boston, Kansas City, and Houston, each received EDI grants of $22 million. Except for Los Angeles, all of these communities also received the $3 million in EZ/EC SSBG funds as ECs.

At the state level, the types of agencies involved and the requirements for drawing down the EZ/EC SSBG funds differed. HHS awarded the funds to the state agency that managed the regular SSBG program unless the state asked HHS to transfer the responsibility to a state agency that dealt primarily with economic development. Consequently, the funds for Atlanta and New York pass through their state's economic development agency, while the funds for the other EZs pass through the state agency that manages the regular SSBG program.

Each urban EZ also has planned diverse activities to meet its city's unique needs. All of them have planned activities to increase the number of jobs in the EZ, improve the EZ's infrastructure, and provide better support to families. However, the specific activities varied, reflecting decisions made within each EZ. According to HUD, the EZs had obligated over $170 million as of November 1996. However, the definition of obligations differed. For example, one EZ defined obligations as the amount of money that had been awarded under contracts. Another EZ defined obligations as the total value of the projects that had been approved by the city council, only a small part of which had been awarded under contracts. As of September 30, 1997, the six EZs had drawn down about $30 million from the EZ/EC SSBG funds for administrative costs, as well as for specific activities in the EZs.

PARTICIPANTS' VIEWS ON THE EZ PROGRAM

We interviewed participants in the urban EZ program and asked them to identify what had and had not gone well in planning and implementing the program. Our interviews included EZ directors and governance board members, state officials involved in drawing down the EZ/EC SSBG funds, contractors who provided day-to-day assistance to the EZs, and HUD and HHS employees. Subsequently, we surveyed 32 program participants, including those we had already interviewed, and asked them to indicate the extent to which a broad set of factors had helped or hindered the program's implementation. While the survey respondents' views cannot be generalized to the entire EZ/EC program, they are useful in understanding how to improve the current EZ program.

In the 27 surveys that were returned to us, the following five factors were identified by more than half of the survey respondents as having helped them plan and implement the EZ program:

- community representation on the EZ governance boards,
- enhanced communication among stakeholders,
- assistance from HUD's contractors (called generalists),[4]
- support from the city's mayor, and
- support from White House and cabinet-level officials.

Similarly, the following six factors were frequently identified by survey respondents as having constrained their efforts to plan and implement the EZ program:

- difficulty in selecting an appropriate governance board structure,
- the additional layer of bureaucracy created by the state government's involvement,

[4]Generalists were private-sector community development specialists who acted as liaisons to specific communities within a geographical area. They provided the EZs and ECs with a single point of access to various types of technical assistance, provided information about federal programs and private-sector initiatives, and fostered community involvement in implementing strategic plans.

- preexisting relationships among EZ stakeholders,
- pressure for quick results from the media,
- the lack of federal funding for initial administrative activities, and
- pressure for quick results from the public and private sectors.

PROGRAM EVALUATION EFFORTS
COULD BE IMPROVED

From the beginning, the Congress and HUD have made evaluation plans an integral part of the EZ program. OBRA 1993 required that each EZ applicant identify in its strategic plan the baselines, methods, and benchmarks for measuring the success of its plan and vision. In its application guidelines, HUD amplified the act's requirements by asking each urban applicant to submit a strategic plan based on four principles: (1) creating economic opportunity for the EZ's residents, (2) creating sustainable community development, (3) building broad participation among community-based partners, and (4) describing a strategic vision for change in the community. These guidelines also stated that the EZs' performance would be tracked in order to, among other things, "measure the impact of the EZ/EC program so that we can learn what works." According to HUD, these four principles serve as the overall goals of the program.

Furthermore, HUD's implementation guidelines required each EZ to measure the results of its plan by defining benchmarks for each activity in the plan. HUD intended to track performance by (1) requiring the EZs to report periodically to HUD on their progress in accomplishing the benchmarks established in their strategic plans and (2) commissioning third-party evaluations of the program. HUD stated that information from the progress reports that the EZs prepare would provide the raw material for annual status reports to HUD and long-term evaluation reports.[5] HUD reviews information on the progress made in each EZ and EC to decide whether to continue each community's designation as an EZ or an EC.

At the time that we issued our December 1996 report, all six of the urban EZs had prepared benchmarks that complied with HUD's guidelines and described activities that they had planned to implement the program. In most cases, the benchmarks indicated how much work, often referred to as an output, would be accomplished relative to a baseline. For example, a benchmark for one EZ stated that the EZ would assist businesses and entrepreneurs in gaining access to capital resources and technical assistance through the establishment of a single facility called a one-stop capital shop. The associated baseline was that there was currently no one-stop capital shop to promote business activity. The performance measures for this benchmark included the amount of money provided in commercial lending, the number of loans made, the number of consultations provided, and the number of people trained.

Also by December 1996, HUD had (1) defined the four key principles, which serve as missions and goals for the EZs; (2) required baselines and performance measures for benchmarks in each EZ to help measure the EZ's progress in achieving specific benchmarks; and (3) developed procedures for including performance measures in HUD's decision-making process. However, the measures being used

[5]HUD's Office of Community Planning and Development awarded a contract for the first annual status reports on each EZ and the Office of Policy Development and Research awarded a separate contract for long-term evaluations of the overall program. The first annual status report was publicly released in March 1997. The two long-term evaluation reports are scheduled for completion on the program's 5- and 10-year anniversaries in 1999 and 2004.

generally described the amount of work that would be produced (outputs) rather than the results that were anticipated (outcomes). For example, for the benchmark cited above, the EZ had not indicated how the outputs (the amount of money provided in commercial lending, the number of loans made, the number of consultations provided, and the number of people trained) would help to achieve the desired outcome (creating economic opportunity, the relevant key principle). To link the outputs to the outcome, the EZ could measure the extent to which accomplishing the benchmark increased the number of businesses located in the zone. Without identifying and measuring desired outcomes, HUD and the EZs may have difficulty determining how much progress the EZs are making toward accomplishing the program's overall mission.

HUD officials agreed that the performance measures used in the EZ program were output-oriented and believed that these were appropriate in the short term. They believed that the desired outcomes of the EZ program are subject to actions that cannot be controlled by the entities involved in managing this program. In addition, the impact of the EZ program on desired outcomes cannot be isolated from the impact of other events. Consequently, HUD believed that defining outcomes for the EZ program was not feasible.

CONCLUSIONS

Concerns about the feasibility of establishing measurable outcomes for programs are common among agencies facing this difficult task. However, because HUD and the EZs have made steady and commendable progress in establishing an output-oriented process for evaluating performance, they have an opportunity to build on their efforts by incorporating measures that are more outcome-oriented. Specifically, HUD and the EZs could describe measurable outcomes for the program's key principles and indicate how the outputs anticipated from one or more benchmarks will help achieve those outcomes. Unless they can measure the EZs' progress in producing desired outcomes, HUD and the EZs may have difficulty identifying activities that should be duplicated at other locations. In addition, HUD and the EZs may not be able to describe the extent to which the program's activities are helping to accomplish the program's mission.

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Madam Chairman, this concludes our prepared remarks. We will be pleased to respond to any questions that you or other Members of the Subcommittee might have.

(385700)

Chairman JOHNSON of Connecticut. Thank you very much, Mr. Czerwinski.

There does seem to me to be a legitimate tension between describing outputs and focusing on outcomes. Do you think that HUD is pressing communities to make the legitimate transition or to focus their thinking on outcomes as well as outputs?

Mr. CZERWINSKI. First of all, I want to thank you for asking that question. It is a very germane one. And I also want to thank you for getting my name right. I can't tell you the numbers of times I have come up and testified and people sort of stumbled over my name.

Chairman JOHNSON of Connecticut. I am from New Britain, Connecticut.

Mr. CZERWINSKI. Either that or Chicago, Milwaukee. Those folks tend to get my name right; other places, not so well.

But to return to your question, if you think about getting to outcomes, it is a very difficult concept. We admit it and you are talking to some researchers, who tend to have a certain view of things. But you are also talking to people who get to the nuts and bolts of what really counts. And the example that I would use would be the private sector one.

Let's say you head a company and want to measure how well your company is doing. Are you going to look at the sales that you have? Maybe you are selling below what it costs you to produce. Or are you going to look at what your profits are? And that is the difference between an output and outcome. You can sell an awful lot of things and drive yourself right out of the business because your outcome is not what you wanted. So I think there is a legitimate aspect to that.

But putting ourselves in the shoes of the local communities, these folks are not quite used to thinking this way, and it is enough to get them just to measure their outputs to start with, but it is time for them to start progressing to get more outcome oriented. And I think that HUD is supportive of this. It is just a matter of how quickly, and that is something we can debate.

Chairman JOHNSON of Connecticut. I think it is very, very important and it does represent a real challenge at the local level. The question really isn't, how many loans did you make? The question is, how many businesses survived? How many jobs did they create? Were they in the enterprise zone? And did the people employed come from the enterprise zone? And it would be nice to know how many of those people were unemployed beforehand, and so on and so forth.

So it is dangerous—and we know that from a long history of failure of Federal programs—to look just at output. You can always train people, and whether you train them for jobs or not is hidden often by the data about training.

I think that the pressure you are putting on us all to look at outcomes as opposed to outputs and help communities to rethink those issues is very, very important, because I think our failure to understand the difference between those two words is really one of the big reasons why many Federal programs have, in fact, been failures in spite of the nice-looking data and the nice-sounding names. So I do appreciate that very much.

On two other issues, the half-full/half-empty issue of how has this gone, what is your evaluation of the governance board structure? Having had intermittent involvement with both cities and urban areas—and I would ask you both, Mr. Czerwinski and Mr. Robertson, to answer this question—is it your conclusion that the planning process in and of itself is very productive?

And then is it your conclusion that, if that is so, does it then follow that communities need to be able to set up nonprofits or some other entity other than the local government to implement this plan?

This is a big concern in my mind, because I can see why there would be a desire to set up a separate entity, but, after all, we elect local officials to govern locally. And there is a real danger—and I have seen it in our neighborhood action groups—to the quality of local government, to its effectiveness, if it does not become the implementing agency for community-based planning operations.

On both of those issues, I would like your comments.

Mr. CZERWINSKI. I think there are two questions that you asked. The first one, planning, is something that is absolutely essential. These things have to be planned out; there is just no question about that. It really goes back to how you measure your results, because if you don't plan and don't put in the pipeline the mechanisms for gathering information, for setting your goals, you won't know what you are going to achieve. So it is something that just has to be done.

And this, again, if you think about the local government's orientation, these folks are implementers, they are not planners. They are not the strategists, to start with, they are the ones that make things happen. So I am not speaking critically of them.

So planning, obviously, coming from our perspective, we would agree with 100 percent.

The other part about who actually does this, I am not certain that we would take a firm position as to whether it should be a nonprofit or a local-government-run entity that essentially leads the zone. However, the key issue is having the complete involvement of all stakeholders, the private folks that are going to have to put the businesses in, the nonprofits, the residents themselves, the local governments. I think, among them, what you have to look at is who in each individual community is best suited to lead that.

I think that is probably going to bias you somewhat towards local governments, because that is their business. But there may be instances where there is a very strong community group that really does represent its interest. So I would urge a little bit of flexibility there.

But the real principle is having sound involvement of all the parties that are going to have to live with things.

Ms. SIMMONS. I agree with what Stan said. I would like to say, in the first round, when communities were setting up government structure, they had no models. This was a new program. It was different from other programs that had been set up. So there wasn't anything for the communities to look to. And, in fact, some have gone through the local government and have their government structure through the city government on the urban side, and others have chosen to set up the nonprofits.

We have been talking to HUD about this second round even before it came about. And one thing I know they are hoping to do is to have some models out there for the next round so that the communities don't have to go through a struggle and can choose to go through the city. The nonprofits are set up differently and have different organizations advising them. But I think flexibility is the key here.

Mr. ROBERTSON. I would hate to disagree now! I would echo the great deal of emphasis, the importance, that Stan and Nancy have put on planning in terms of a factor influencing the economic success of these communities.

As a matter of fact, Representative Watkins, as you were speaking, I thought about some work that we did a couple of years ago that, basically, tried to get a handle on what are the factors that influence the success or failure of rural communities. And the long and short of it was, there are an awful lot of problems associated with economic development in rural areas, and there are a lot of factors that are, frankly, beyond the control of those local communities. But the one factor that isn't, of course, is the leadership of that community. The fact that this particular program emphasizes the leadership factor, the community involvement, I think, is important. It won't guarantee success, but it will certainly push the odds in that direction.

Mr. WATKINS. Madam Chair, I would appreciate a copy of that. I am fully aware many of our young people cannot go back. As I tell them, education locks you out of going back to rural, depressed areas, because there are no jobs that you can do. I have taken at home to provide—in some cases to try to provide that kind of leadership, hopefully, the kind of vision and motive to try to help them overcome some of the problems. And you have successes and failures, but the biggest failure of all is to do nothing, as I tell my communities, is the biggest failure of all. So sometimes we have to work through a few of those failures on the way.

But I would like a copy of that.

Mr. ROBERTSON. We would be happy to talk to you about the study.

Mr. CZERWINSKI. And it would be fun. We love to give out our products.

Mr. WATKINS. Does it include the rural area?

Mr. CZERWINSKI. It is all about rural areas. It is titled "Rural Development."

Mr. COYNE. This program was supposed to involve the wide range of representatives from the local communities. I wonder if you could give us some example of the types of representatives that are involved in implementing programs in communities throughout the country.

Mr. CZERWINSKI. Actually, I happen to have a listing from Baltimore. I understand that Mayor Schmoke is going to be here following us on the other panel. So he can also talk about the kinds of those. But, for example, looking at the listing, for Baltimore, there was the owner of a pharmacy, representatives of the local residents, folks in the public housing authorities, from the mayor's office, and also state officials.

Ms. SIMMONS. Sometimes there are State representatives.

Mr. COYNE. Would you repeat that?

Ms. SIMMONS. Sometimes there are representatives from the State government. I don't know if they are specifically on the board of directors of local governance. There are also church leaders from the community. Some of them have residents. I know in Atlanta they have a provision where they have representatives from the neighborhoods who are affected. There is representation from them, private sector, academia. Pretty much anybody who is in the community is represented on these boards.

Mr. CZERWINSKI. Baltimore's City Council is represented. I think our examples are going through the alphabet, we picked out Atlanta first and then Baltimore. If you want, we can provide you with an exact listing.

Mr. COYNE. The EZs and ECs have been using social services block grants for a couple of years now. I wonder if you could cite some of the activities funded with the grants.

Mr. CZERWINSKI. Actually, a very wide range of activities have been funded, from using these grants for administrative purposes to operate the boards to other things like getting involved in local programs.

One of the empowerment zones—I can't remember the city right now—for example, used the seed money to leverage private investment in a corporation. I believe that their leveraging was quite high, so that block grant money actually brought in five or six times the amount of private funding. Also the typical purposes of something called social services block grant—for social services, such as, to use Mr. Glaser's words, treating tenants for health concerns, et cetera. So it is a very wide range.

Mr. COYNE. Thank you.

Chairman JOHNSON of Connecticut. Just to follow up on Mr. Coyne's question, since it is such an important one, do you see any difference between those communities that have the social services block grant available to them and those that don't? Is it representing any drag on the program that the recently passed law does not provide social service block grants?

Mr. CZERWINSKI. That question really gets back to how much you can measure. And it is very early in the program to measure what is actually being produced. However, one thing that I ask you to look at is the package of goods that is being given out for benefits.

The first is the tax bonds. Well, very, very few places have offered the bonds, partially because of the State cap issue. But, also, I think there are some issues about the bonds themselves.

The second is the tax incentives. I believe the previous panel before us testified that those haven't been that strong of an inducement either. So what does that leave us? It leaves us the grants. And the grants range tremendously from 3 million in some areas to over 100 million in others.

Now, the needs may also range that greatly, too, so I am not saying that there is an inequity here. By power of elimination you can say if we eliminated bonds, having done that much, we have been told that the incentives haven't done as much, what does that leave us? Grants.

Chairman JOHNSON of Connecticut. And, Mr. Robertson, the rural areas, the social services block grants, how important are they?

Mr. ROBERTSON. Well, I would just echo what Stan said basically. It is a bit too early to see what we have bought with the SSBG funds.

Chairman JOHNSON of Connecticut. Don't the macro figures indicate that rural enterprise zones, or whatever category, have used more of their grant money proportionately than the urban zones have?

Mr. ROBERTSON. That I would have to check for the record. I don't know.

Ms. SIMMONS. I believe that is true, that they have drawn down a higher proportion of their funds. But I guess we have been reluctant to use that as any indicator that there is progress, because what we have seen on the urban side is that some of these cities that have drawn down lesser amounts have focused on different things. I will give an example that they have leveraged the money that they had to bring in private sector investment, and we haven't really done a lot to look at that.

Chairman JOHNSON of Connecticut. And, of course, the planning process in the big cities is much slower and takes much longer.

Ms. SIMMONS. Yes.

Chairman JOHNSON of Connecticut. That doesn't concern me at all. In fact, it concerned me a little bit to see what percentage of the funds the rural communities have already drawn down.

And, Mr. Robertson, you really can't say anything about how those can be used? Because my recollection is, and the staff would have to help me here, but it is something like 42 million out of a possible 60 million.

Mr. ROBERTSON. I can tell you about what the progress has been in terms of using those funds as well as other funds in implementing some of the projects.

Chairman JOHNSON of Connecticut. What kinds of ways have they used those funds in those areas?

Mr. ROBERTSON. They have used those funds, as well as other funds, for job training programs. They have used them for 911 service. They have used them for starting small business incubators. They have used them for a variety of different social and economic development projects.

Chairman JOHNSON of Connecticut. Okay. I am sure we will get into that more. And I would like to also have a copy of your rural report.

Mr. ROBERTSON. Sure.

Mr. CZERWINSKI. We love to give them out if anybody else wants them.

Chairman JOHNSON of Connecticut. Mr. Watkins.

Mr. WATKINS. Thank you, Madam Chairman. And let me say again I appreciate this input, and I would like to pick that up later on from you.

I noticed on page 4 of the Community Development Federal Department Zone Enterprise Community Program, there is a couple of different areas you have declared, and you provided six communities. The HUD Secretary has also designated six communities as

Supplemental Empowerment Zone and Enhanced Enterprise Communities.

Do you have any designation like that in the rural area?

Mr. ROBERTSON. I am sorry. Could you repeat the question, please?

Mr. WATKINS. It says, in addition, the HUD Secretary also designated six communities as Supplemental Empowerment Zones and Enhanced Enterprise Communities. Like the other EZs and ECs, these communities each receive grants through HUD's Economic Development Initiative. The supplemental zones located in L.A. and Cleveland receive EDI grants of $125 million and $87 million respectively. The enhanced communities located in Oakland, Boston, Kansas City and Houston each received EDI grants of 22 million.

Mr. ROBERTSON. The rural counterpart to that basically would be the champion communities. And their—their benefits basically are along the lines of getting preferential treatment from other Federal agencies in their grant and loan programs.

Mr. WATKINS. I have been on a couple, two or three meetings on the discussion of champion communities. I think Ada, Oklahoma may be a champion community, but I don't know what their status is. Are you familiar with that?

Mr. ROBERTSON. Not with that particular community, but we can certainly talk with you about the concept of champion communities.

Mr. WATKINS. I sure want to get you more familiar with Oklahoma. But Ada, I know they had an application in. And that is also an area that is headquarters of the Chickasaw Nation, and that rural area, that area south and east and to the—kind of the southwest there, there is really a—I would like to discuss that with you at a time that you could call me and give me a little opportunity.

Mr. ROBERTSON. We would be delighted.

Chairman JOHNSON of Connecticut. I noticed in dividing that out, there is a breakdown of each urban EZ allocated at 100 million. Each rural area was allocated 40 million. That is out of 140 EZs. I just wanted to kind of follow up on those dollars and see where we are on those.

But let me ask, it is my understanding that under the Tax Relief Act of 1997, the designation would be allowed of kind of the dual incentives if an area is designated under 168(J), which is the Indian reservation, in order to form any territory; and also, number 2, the areas designated EZ or EC, tax incentive area. Is that your understanding also?

Mr. ROBERTSON. Stan, I am going to refer this question to you. I am not familiar with it.

Mr. CZERWINSKI. The interpretation that we have is that there would be 20 new EZs under this second round, and that the split would be 15 urban, 5 rural.

Mr. WATKINS. I understand that split. I am just talking about the tax incentives themselves. You may not be familiar how——

Mr. CZERWINSKI. We haven't evaluated the specifics of that proposal, so I really couldn't get into the details of the tax incentives. I am sorry.

Mr. WATKINS. I was talking to Steve and Mac a while ago. If our interpretation is correct, we will be able to have a dual designation, which some would be helped a great deal in trying to get out of that extreme poverty situation.

Ms. Simmons, are you, in your community development as an assistant director, are you housed at HUD or under a——

Ms. SIMMONS. I am with the General Accounting Office, so we are not part of them.

Mr. WATKINS. So you have got a dual relationship, also.

Ms. SIMMONS. Well, I—we work for the legislative branch. So we are only at HUD to do our audit work of specific programs, like the EZ program.

Mr. CZERWINSKI. Mr. Watkins, I probably should have explained up front, and I apologize for not setting up clearly. I am responsible for the GAO's housing and community work. Nancy is my assistant director for the community development aspect of that. Bob is my counterpart for the rural development work.

Mr. WATKINS. Okay. I should have been probably knowledgeable about that.

Mr. CZERWINSKI. No, it is me. It is my apology. I should have explained that up front. So that is why I was really happy that we spoke with one voice, because it would have been a long cab ride back to GAO if we didn't.

Mr. WATKINS. Let me say, I look forward to having the opportunity to visit one on one and discuss some more of these. And I appreciate the patience of the Chairman and also Mr. Coyne for his patience allowing me to have this opportunity to have this chance to interface and have a dialogue.

So thank you. I appreciate your commitment and dedication. There has got to be a way we can turn some of these depressed areas around. And I would like to say, Madam Chair, I am one who has lost sleep also worrying about how do we save the children in the inner cities. I do worry about that. So my commitment is not just the rural areas. That is where I am. I represent that. But I really worry—at least in the rural areas, lots of times, we know people. I appreciate—in fact, I grew up in the small community. When I graduated in that little community, I worked for everyone in the area. When I graduated, I got 59 pairs of socks, because everyone knew me, and I knew everyone.

And I think it is sad enough, some of the small communities that are in some of the urban inner cities, that the children don't know—have no role models. And you wonder how do we save them, how do we lift them out of the problems they have there.

So I have high hopes. And I hope and pray they work in the urban inner cities. And I just know we can make some things happen good out in the rural economic-depressed area. So thank you, Madam Chairman.

Chairman JOHNSON of Connecticut. Thank you very much. And I thank the panel.

I would like to call now the next panel, Kurt Schmoke of Baltimore, the mayor of Baltimore; Paul Fraim, the mayor of Norfolk; Dick Posthumus, the Senate Majority Leader of Michigan; Joan Blaustein, the Special Projects Manager, Department of City Planning of Pittsburgh; and Dan Gundersen, the Director of Economic Development, city of Philadelphia Empowerment Zone.

I welcome the panel and invite the mayor of Baltimore, the Honorable Kurt Schmoke, to proceed. But first, I would like to recognize my Ranking Member, Mr. Coyne.

Mr. COYNE. Thank you, Madam Chairwoman. I just want to say in welcoming the panel and Mayor Schmoke to the committee here today that Congressman Cardin is unable to be with us today. He wanted me to welcome you and to let you know that the testimony that you are going to give is going to be of great interest to this committee and help us in our deliberations. And I would like unanimous consent to be able to submit a statement of Congressman Cardin for the record.

Chairman JOHNSON of Connecticut. So ordered, Mr. Coyne, and thank you.

[The information was not available at the time of printing.]

Chairman JOHNSON of Connecticut. My apologies, Mr. Schmoke, for mispronouncing your name the first time away. You may proceed.

STATEMENT OF THE HONORABLE KURT SCHMOKE, MAYOR, CITY OF BALTIMORE

Mr. SCHMOKE. Thank you very much, Madam Chair. If you can do Czerwinski, you can do Schmoke.

I do appreciate this opportunity and Members of this subcommittee to allow us to testify concerning the strategies and accomplishments of the empowerment zone initiative in Baltimore. I have submitted written testimony and, in the interest of time, will just provide a summary of some of the highlights of that testimony.

Before getting into that, though, in listening to some of your earlier questions, I just wanted to ask you to keep in mind two factors as it relates to Baltimore's empowerment zone initiative. The first is that it has been a community-led—from the time of the drafting of the proposal until today, our empowerment zone initiative is led by a private, nonprofit board, Empower Baltimore Management Corporation, which has a 30-member board of directors representing a diverse group from our city, faith-based organizations, business community, private, nonprofit groups, public housing residents, and many others. And so we, from the very beginning, had a consensus that this should be run not from city hall, but by a private nonprofit organization, and that has continued until today.

The second factor is that I believe, and it has been the consensus of our group, that the empowerment zone initiative should be viewed as not the solution to urban America's problems, but as a tool towards a solution. It is, in fact, a very important tool that we have been using, and we believe that steady progress has been made. And, clearly, of course, having this initiative occur at a time of an improved national economy has made a great deal of difference to the quality of life in our city.

I want to bring you up to date on the progress of our empowerment zone by focusing quickly on four components of our empowerment zone strategy: business development, work force development, improving the quality of life, and community capacity building.

With respect to the business development, we have worked hard on creating jobs, on financing businesses, and the establishment of a Business Empowerment Center. To date, the Empower Baltimore

Management Corporation, the nonprofit organization that runs our EZ strategy, has created more than 1,900 jobs through business startups, locations, and expansions in the empowerment zone.

With respect to work force development, we recognize that it is critical to have a pool of job-ready employees available to take advantage of opportunities as they arise, so the management corporation has designated over 3 million of empowerment zone funds for customized job training, occupational skills training, and literacy.

To date, about 159 positions for zone residents have been created through the customized training agreements with Baltimore area employers; that is, employers who don't—who are not necessarily located in the zone, but who have turned to our management corporation to customize a training program for workers that they would like to have who happen to be residents of the zone.

Many other zone residents have received job placements through our Office of Employment Development. Over 800 of those zone residents have received jobs that way.

With respect to the third part of our empowerment zone strategy, improving the quality of life for residents and businesses, we have worked on issues of enhancing community policing, creating mobile police stations, investing in home ownership, and curriculum changes in certain schools that are located in the empowerment zone.

Through this work, among other things, we have seen a substantial decrease in crime in the empowerment zone area, almost 24 percent in the last 2 years. And, also, we have seen an increase in home ownership through a Housing Venture Fund that has been established.

The final part of our strategy is what we call community capacity building, and that is enhancing the capacity of the community to improve its own life. And there we have been working on improving leadership skills and making sure that the community is very involved in the implementation of this program. We do that through what has been called village centers. These are six community-based organizations, which were established to identify and mobilize zone residents to take advantage of the opportunities created by this initiative. Village centers have worked very well and have helped us in achieving these goals.

There are many other specifics that I can go into, but I think, at this point, if there is any significant change that we would like to see, it is really that we would like to be able to improve the marketing of this program so that the business community would understand that the empowerment zone initiative is far more an investment tool for business rather than another social program from the Federal Government.

Those businesses that have moved or expanded in the zone understand the importance of the tools that they have been given. We would simply like to do more in terms of marketing this to other corporations.

Thank you very much, Madam Chair, and I look forward to answering your questions.

[The prepared statement follows:]

Testimony by Mayor Kurt L. Schmoke
House Committee on Ways and Means, Subcommittee on Oversight
Longworth House Office Building, Main Committee Hearing Room
Tuesday, October 28, 1997 at 10 a.m.

Madam Chairperson and members of the Subcommittee on Oversight of the Committee on Ways and Means, I want to thank you for this opportunity to share the strategy and accomplishments of the Empowerment Zone initiative in Baltimore. Baltimore was proud to have been designated an Empowerment Zone City in December 1994, and we are proud today about the exceptional progress we are making in bringing opportunity to the Zone.

I want to bring you up to date on this progress by focusing on the four key components of our Empowerment Zone strategy: business development, workforce development, improving the quality of life, and community capacity building.

Accomplishments in **business development** include job creation, business financing, and the establishment of a Business Empowerment Center, which provides a range of technical assistance. Job creation is the core of the mission of the Empower Baltimore Management Corporation (EBMC), the non-profit organization established to implement the Empowerment Zone strategy in Baltimore. In partnership with the Baltimore Development Corporation and the Maryland Department of Business and Economic Development, EBMC has created more than 1,900 jobs through business startups, locations, and expansions in the Empowerment Zone.

To stimulate business and job growth in the Zone, EBMC established a $1 million 80/20 Loan Fund (called the High Risk Loan Fund in our application). The fund provides subordinated debt to businesses that conventional lenders believe to be undercapitalized. Individual businesses are eligible for 20 percent of the total loan needed, up to $100,000. A conventional lender provides the remaining 80 percent. To date, eight businesses have taken advantage of the loan fund, creating 78 new jobs.

In our Empowerment Zone application, the 80/20 Loan Fund was the only money allocated for business financing. But with input from the community advisory council, business owners, and community residents, the EBMC Board of Directors designated $5.5 million for loans and equity investments to assist with business development in the Zone.

As our efforts gain momentum, opportunities continue to emerge for business development. Just a few weeks ago, we became partners in a national demonstration project funded by Nike, the State of Maryland, the Development Credit Fund, and the Zone. The purposes of the project are to provide opportunities for minority entrepreneurs to establish retail athletic specialty stores in Baltimore and surrounding areas, and to create jobs for City residents.

To assist Zone businesses and businesses interested in locating in the Zone to meet the challenges of a competitive marketplace, EBMC has established a Business Empowerment Center. This Center offers businesses a unique opportunity for technical assistance, networking, access to loans and capital, and workshops tailored to meet the needs of Empowerment Zone businesses. The Center's work is enhanced by the location of three other resources in its offices: a U.S. Small Business Administration One Stop Capital Shop, The Maryland Homebased Business Association, and Professional Training Systems. A Bank of America loan officer is also assigned there. Since February 1997, he has approved seven loans to Zone businesses totaling $775,000. An additional $900,000 in loans is pending.

Now, let me turn to our accomplishments in **workforce development**.

We recognize that it is critical to have a pool of job-ready employees available to take advantage of opportunities as they arrive. To that end, EBMC has designated $3.7 million of Empowerment Zone funds for customized job training, occupational skills training, and literacy. To date, 159 positions for Zone residents have been created through customized job training agreements with Baltimore area employers.

Another 800 Zone residents have been placed in jobs in the Baltimore area through Employ Baltimore, an initiative of the Mayor's Office of Employment Development. EBMC is also helping to support the federally-financed Bridges to Work program in East Baltimore. Through this program, transportation is being provided to 28 Zone residents to jobs in the suburbs, at an average salary of $12 an hour.

We also recognize that for a segment of the Empowerment Zone population, formidable barriers to gaining and maintaining employment remain. And we are addressing this problem with a coordinated strategy that includes assessment, job training, job placement and follow up, and access to drug treatment and child care for those job seekers who need them.

The third part of our Empowerment Zone strategy is **improving the quality of life** for Empowerment Zone residents and businesses. And here, EBMC has supported such public safety initiatives as enhanced community policing and mobile police stations, has initiated a grant to cover settlement costs for home buyers, and has supported curriculum changes in local schools. The results of these efforts, especially in the area of crime, are encouraging indeed. According to Police Department statistics, overall crime decreased in the Empowerment Zone by 23.9% from 1994 to 1996.

In order to increase home ownership in the Zone, EBMC has designated $2 million of Empowerment Zone funds to the Housing Venture Fund, which provides grants of up to $5,000 to low- and moderate- income individuals and families interested in purchasing a home in the Zone. Through August 1997, 78 applicants have been approved for mortgage financing by a lender for an HVF grant to assist with closing costs, 45 applicants have closed on their loans, and 10 more are scheduled for closing in the coming weeks.

In the area of education, two developments -- the Baltimore Curriculum Project and the New Schools Initiative -- promise to have a major impact on education in the Zone. As a result of the Baltimore Curriculum Project, funded by The Abell Foundation, students of two Empowerment Zone schools have dramatically improved their test scores in reading. As a result of the New Schools Initiative, two new community-run schools began operating this fall in the Zone, expanding the educational opportunities available to the area's children.

The final part of our strategy is what we call **community capacity building**, that is, enhancing the capacity of the community to improve its own life. To achieve this vital goal, we have established six community-based organizations called Village Centers, which are unique to Baltimore's Empowerment Zone. These organizations have been established to identify and mobilize Zone residents to take advantage of the opportunities created by the Empowerment Zone initiative and to coordinate community development strategies at the neighborhood level. To facilitate the success of these grassroots organizations, they have access to technical assistance made available through the Empower Baltimore Management Corporation.

We have achieved many successes over a short period of time, but there is much more to be done. We must continue to work with businesses in and out of the Zone to create jobs and opportunities for Zone residents. Up to this point, most of the jobs created in the Zone have been in East and West Baltimore. In the coming months, we anticipate a growing number of opportunities becoming available in Fairfield, the third region of our Empowerment Zone.

Our concept in Fairfield, an older, heavily industrial area, is to develop an innovative ecological industrial park designed to attract environmentally-oriented tenants. As it is, since 1995, business activity in Fairfield has generated $144.5 million in public and private investment, creating 203 jobs. Known projects to be developed within the next 18 months will create an investment of $42.8 million, creating an additional 280 to 500 jobs. To accelerate development of this area of the Zone, a 20-acre plot of land, formerly an abandoned public housing site, was cleared and prepped to offer to prospective developers and businesses.

I've shared with you today some highlights of the exciting story that is under way in Baltimore as we develop our Empowerment Zone. The Clinton Administration launched the Empowerment Zone initiative with the hopes that it would unleash economic growth and restore opportunity to distressed inner-city communities. I'm here to tell you that in the City of Baltimore, every day brings fresh evidence that we <u>can</u> achieve that vision. I know people in Baltimore who were once left out and excluded. They are included – and empowered – now. I know people who were unemployed. They have jobs now – at a decent living wage. I know people who saw no future for themselves and their children. They have hope now. And the catalyst for these changes was the Empowerment Zone initiative. Based on our experience in Baltimore, I strongly support the idea of extending the Empowerment Zone concept elsewhere in the nation.

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Chairman JOHNSON of Connecticut. Thank you very much. It was very interesting

The Honorable Mr. Fraim.

STATEMENT OF THE HONORABLE PAUL D. FRAIM, MAYOR CITY OF NORFOLK; ACCOMPANIED BY MASON ANDREWS, FORMER MAYOR, CITY OF NORFOLK

Mr. FRAIM. Madam Chairman, I thank you for the opportunity to appear today to comment on Norfolk's experience as an enterprise community. It is the only urban EC awarded in Virginia, one of several ECs identified by HUD as a top performer.

If I may, I would like to also, Madam Chair, introduce Dr. Mason Andrews, who is with me today. He is the former mayor of the city of Norfolk and truly the architect of our very successful program.

Chairman JOHNSON of Connecticut. Thank you.

Mr. FRAIM. And he is here to answer questions.

Chairman JOHNSON of Connecticut. We welcome him as well.

Mr. FRAIM. And if I may make a comment that the enterprise community strategy in Norfolk is also led by a private nonprofit, much like Baltimore's. We have extensive community involvement in this implementing agency. They range from city officials to housing authority officials, heads of the business departments of our two local universities, community groups, representatives from the Urban League, from the NAACP. We have residents, other representatives from our community college and from higher education, community leaders, also business leaders as well.

Norfolk is a midsized city unable to expand geographically because we are bounded by water and fixed jurisdictional boundaries. Norfolk is one of the Nation's older cities, which means aging public schools and infrastructure and little undeveloped plan to attract new business. We are, in fact, 96 percent developed. Additionally, nearly 50 percent of our land is tax-exempt.

This is why the EZ/EC program is vital to Norfolk, to those who live here, and in the surrounding communities in the region, and to inner cities throughout the Nation.

Essentially, there are two aspects of the EZ/EC designation. There are tax incentives and the original Social Service Block Grant funds provided under title XX. In addition, Federal EZ/EC designations trigger certain State tax benefits and grants, which are beneficial.

It is Norfolk's view that SSBG funds and tax incentives properly crafted and implemented are needed if we are to revitalize the distressed areas in our Nation's cities. For Norfolk, however, it is the SSBG, the grants funding, that has really made the difference. This is the case, despite the fact that ECs receive only $3 million to be used over the entire 10 year life span of the program.

The central focus of the Norfolk EC program is to enable substantial numbers of EC residents who would not otherwise do so achieve economic self-sufficiency, develop their potential for upward mobility and contribute to the city's economy. Working through existing neighborhood centers with the city's organized business community and a number of existing training organizations, this is happening. Motivation, basic job readiness training,

training in a variety of skills using existing and new programs, job placement, and on-the-job follow-up are all involved.

Our job placement rate is about 60 percent, with another 22 percent pursuing additional training or educational opportunities. Nearly 500 individuals have been employed. The retention rate is 75 percent. The word is spreading that a better life is available, and demand for training exceeds supply. The cost per person trained and employed is about $2,800, substantially lower than most employment training programs.

We have been very prudent in using our funds. We have expended about 60 percent after 2 years in operation. We would encourage attention to the need for renewal funding in the near future, at least for communities that are meeting their objectives.

Madam Chairman, I would ask that you consider rewarding top-performing communities' priority status for new funding and be upgraded to the EZ standard.

Our efforts have been devoted to providing a variety of job training, mostly job readiness training, and placement. We have been successful, but we need to do more with skills training so that EC residents can compete for the better-paying jobs. Such programs are more expensive to provide, but we believe they are well worth the investment.

Regarding the other aspects of an EC/EZ designation, the tax incentives, the only one available to ECs is expanded use of tax-exempt private activity bonds. Other communities may have a different experience but, for Norfolk, we have no indication that this incentive has been of value attracting new businesses to our EC. We are told that it is too restrictive and complicated; for example, by requiring services provided to be predominantly in the EZ/EC program—in the area. Perhaps, too, this incentive is not well directed to attracting small businesses.

I might offer an observation regarding tax incentives intended to attract businesses to EZs and ECs. Incentives should not be viewed as if all other things are equal. Incentives to cause businesses to locate in ECs or EZs need to be attractive enough to compete not merely with other areas of the same city with the same property tax rate, but with locations outside the city where the cost of doing business may be lower or appears so to corporate relocators.

Tax incentives to businesses to hire EZ/EC residents are another matter and should be of significant benefit. However, ECs do not receive the employer wage credit available to EZs. Conceptually, the Work Opportunities Tax Credit should provide similar advantages, but in practice, it is not used extensively. The employers tell us it is burdensome and overly bureaucratic. We understand some changes have been made. Hopefully these will make the WOTC attractive. If not, additional changes should be considered.

Again, thank you very much for the opportunity to share my thoughts with you today. As I have already indicated, it is our view that SSBG funding and tax incentives are needed. Thank you very much.

[The prepared statement follows:]

Remarks by Paul D. Fraim, Mayor, City of Norfolk
before
Subcommittee on Oversight of the Committee on Ways and Means
October 28, 1997

Madam Chairman and Members of the Subcommittee, I am Paul Fraim, Mayor of the City of Norfolk.

Thank you for the opportunity to appear today to comment on Norfolk's experience as an Enterprise Community, the only urban EC awarded in Virginia, and one of several ECs identified by HUD as a "top performer."

The central focus of the Norfolk EC program is to cause substantial numbers of persons, who would not otherwise do so, to achieve economic self-sufficiency with the potential for upward mobility and taxpaying contribution to the City's economy. Working through existing neighborhood centers with the City's organized business community and a number of existing training organizations, this is happening. Motivation, basic job readiness training, training in a variety of skills using existing and new programs, job placement, and on-the-job follow up are all involved.

Our job placement rate is about 60% with another 22% pursuing additional training or educational opportunities. Nearly 500 individuals have been employed. The retention rate is 75%. The word is spreading that a better life is available and demand for training exceeds supply. The cost per person trained and employed is $2816, substantially lower than most employment training programs.

Norfolk is a mid-size city, unable to expand geographically due to water mass and restrictive state laws that make jurisdictional boundaries indelible, unlike cities located in other states, for example, our neighbor to the south. Chartered first as a town in 1682, Norfolk is one of the nation's older cities which means aging public schools and infrastructure, and little undeveloped land to attract new business.

Our inability to grow and our age are exacerbated by the fact that 50% of our land is tax exempt, in large part due to the mixed blessing of being home to the world's largest naval base and the second largest commercial -- but tax exempt -- port on the East Coast. We are ranked first among Virginia's 140 cities and counties for "fiscal stress," a well-accepted state measure of imbalance between fiscal requirements and tax resources.

Despite all this, Norfolk is a city that is aggressively and creatively working to solve our problems, to make Norfolk a great place to live, work and visit. Hardly a day passes that we don't encounter a visitor who remembers Norfolk as it was twenty years ago and cannot believe how positively we have changed. We have revitalized our waterfront, causing its tax base to increase ten-fold in the last ten years.

Meeting these significant challenges has not been easy and the City is in a constant financial struggle to meet the needs of our constituents with the resources available and to maintain our AA bond rating. This is why the EZ/EC program is vital to Norfolk and to those who live here.

As you know, essentially there are two aspects of an EZ/EC designation -- the tax incentives and the Social Service Block Grant (SSBG) funds provided under Title XX. In addition, federal EZ/EC designation triggers certain state tax benefits and grants which are beneficial and, by requiring the state zone to conform with the federal, we have been able to expand the number of businesses covered from 600 to 1700.

It is Norfolk's view that tax incentives and SSBG funds, properly executed, are needed if we are to revitalize the distressed areas in our nation's cities.

For ECs, our only tax incentive is expanded use of tax-exempt private activity bonds. Other communities may have a different experience but, for Norfolk, we have no indication that this incentive has been of value attracting new business to our EC. We are told it is too restrictive and complicated (for example, by requiring services provided to be predominately in the EZ/EC). Perhaps, too, this incentive is not well directed to attracting small businesses.

If I might offer an observation regarding tax incentives intended to attract businesses to EZ/ECs: Incentives should not be viewed as if all other things are equal. Incentives to cause businesses to locate in ECs or EZs need to be attractive enough to compete -- not merely with other areas of the same city, with the same property tax rate, etc. -- but with locations outside the city, where the costs of doing business may be lower or appear so to corporate relocators.

Tax incentives to businesses to hire EZ/EC residents are another matter, and should be of significant benefit. However, ECs do not receive the Employer Wage Credit available to EZs. Conceptually, the Work Opportunities Tax Credit (WOTC) should provide similar advantages but in practice it is not used extensively. Employers tell us it is burdensome and overly bureaucratic.

As to the other aspect of an EZ/EC designation, the SSBG grants, ECs receive only $3 million to be used over the entire ten-year life of the program. After two years in operation, we would very much encourage attention to the need for renewal funding in the near future, at least for communities that are meeting their objectives.

Much of our efforts have been devoted to job readiness training and placement. We need to do more with skills training, so that EC residents can compete for the better paying jobs. Our partnership with the Women's Center, affiliated with Tidewater Community College, to provide vocational training in non-traditional fields for women is a good example.

For Norfolk, it is the SSBG funding that has really made the difference. Attached to this testimony are specifics about our many productive activities.

Again, thank you very much for the opportunity to share my thoughts with you today.

Highlights of Norfolk's Enterprise Community Program

Norfolk's Enterprise Community is managed by Norfolk Works, Inc. (NWI). A 501 C 3 non-profit organization, governed by a community leadership board that sets policy and steers the implementation of Educational/Job Training Services and activities of the Enterprise Community.

A Technical Assistance Committee has been created representing all service and education providers relating to jobs and training. Residents of neighborhoods and public housing, as well as representatives of Community Development Corporations are also members of this committee. This group is working to determine needs relative to job training and employment issues, such as transportation, child care, clothing, and loss of benefits. In addition the group is identifying gaps in programs/services.

NWI has partnered with Tidewater Community College's Women's Center to develop non-traditional training for a group of EC residents. This first class will be training in repair and installation of air conditioning and heating systems. They are enrolled at TCC and the program will include mentoring, counseling, follow-up, job placement and the technical training. The local HVAC Association has endorsed this program and the participants will receive internship/hands-on training. The success of this first class will mean expansion into other areas of training such as automotive mechanics and plumbing.

A grant from the Dalis foundation provides the resources to purchase computers and software to be placed in four Neighborhood Centers and to hire and train career counselors to provide hands-on assistance for these Centers. Each Center is equipped with the software to administer assessment tests, TABE, the Electronic Portfolio, access to the Virginia Employment Commission's Job Bank and a GED course. A computer program resume for all clients can be accessed in the neighborhood centers. This information includes previous jobs, education, volunteer experiences, etc. and is available to clients to use as a resume when applying for employment.

Through the NWI Counselors, community outreach, and coordination of services, EC residents learn about what is available, how to access enrollment in needed programs, and what future steps are needed to succeed in receiving the training and assistance a person may need to become employed and self-sufficient. Counselors serve as advocates for the residents needing their services.

NWI was developed specific job training based on competencies delineated by the specific business, for example, NationsBank, a shipbuilding business and the HVAC Advisory Board. NationsBank has guaranteed to hire EC residents trained using NationsBank's criteria, partnered with the Department of Human Services to recruit, screen and provide resources for Tidewater Community College to teach the classes. Local shipbuilding concern required trained personnel skilled in fiber glassing boats. NWI arranged for partnership with JTPA and Maritime Training Institute to implement the training with guaranteed jobs. HVAC businesses are providing internships and jobs to residents trained by TCC in partnership with Human Services and NWI.

NWI Career Counselors are available in the four Centers to assist citizens with information, resources and support. They work with individuals to remove employment barriers, improve their work skills and develop a plan fore the future. After an initial assessment, the counselors assist individuals identify the appropriate education and training programs that will lead to long-term employment. NWI provides resources, referrals, educational opportunities and job training to EC residents who are without jobs or marketable skills. NWI provides assistance with job development, placement, and job retention and provides the resources needed for qualified individuals to enroll in area education/training programs.

Through partnerships with the Greater Norfolk Corporation, the Norfolk Department of Development and the Industrial Development Authority, over 50 companies representing a variety of industries have agreed to list available jobs and work with NWI to provide employment to graduates of the Focus/Urban Apprenticeship Program.

The FOCUS/UAP is a career track plan that provides job readiness, life and work skills, mentoring counseling, education and employment. The goals are full-time employment and self sufficiency. This program provides progressive steps of education and training that could lead to jobs and/or enrollment in college. Child care and bus tickets are provided for the participants. The course includes training in life skills, work ethics, job referral and placement. Eighteen FOCUS/UAP classes have been conducted and over 300 students have completed the classes. Other education courses include Certified Nursing Assistants, Automotive, Computer Basics and Advanced, Customer Service and Retail Sales.

Job Readiness classes are available in various neighborhoods for residents who are not ready to commit to the UAP. If a neighborhood identifies a need for such classes and this need is not being met in a convenient location, NWI will provide these classes for 20 more residents.

NWI brought together 37 agencies, organizations and/or citizens to plan and evaluate the design and implementation of the Employment and Jobs Education and Training Programs to be undertaken as part of the Enterprise Community Grant. This group meets to address joint programs, grant possibilities, expansion of programs and development of needed new programs. Criteria were developed for a retail training program for low-income residents to prepare them for potential employment in the new retail center, MacArthur Center. Other areas that are being researched are transportation, child care and legal resources.

Agencies and organizations providing services and programs were surveyed by NWI to determine the range of services available to EC residents. Since the EC covers a large part of the city it was determined that many services were being provided by many groups and organizations. This was an attempt to identify some of the programs and services available to EC residents and the agencies and organization that are providing them. This report did not try to present all the neighborhood programs that are in place, e.g. church, civic league and neighborhood efforts.

The contractor for the Tidewater Community College construction project agreed to have NWI recruit for construction workers through the Neighborhood Centers. The completed applications were given to the contractor who set up a data base. The sub-contractors agreed to 50% of all new hires for unskilled labor and for 25% of all new hire skilled coming from this source. Forty-two EC residents were employed. This method is being used by the general contractor for the MacArthur Center who has agreed to give first consideration to all job applicants referred by NWI. Over the two year building program NWI expects at least 100 persons to be hired as a result of this partnership.

NWI has awarded the contact for a retail training program to Norfolk Public Schools. EC residents are receiving training in all aspects of retail selling and related jobs. NWI has developed a plan with the developer of MacArthur Center to design a training program for all new hires. Tidewater Community College and NWI will collaborate in the MacArthur Academy. Over 1000 jobs will be available to EC residents.

NWI has assisted a grocery chain, manufacturing company, temp services and construction companies with a recruitment and application process. This has resulted in several hundred jobs being made available to EC residents. NWI provided an orientation program and assistance in filling out applications and certification credentials for one company to apply for Work Opportunity Tax Credits. NWI contacted Social Services for their eligible clients as an effort to assist in job placement for the Welfare Reform Program. Over 100 applications were submitted.

An Opportunity Fair and several Job Fairs have been presented by NWI. The attendees are provided with information about the education, training and job opportunities available to them. All those attending have an opportunity to fill out an information form and talk with a counselor. All forms are screened and put into a data base by training category needs and qualifications. Each applicant is called by one of the NWI counselors and invited to have an interview and then offered a training program based on their needs or assisted with job referral. These events are held at least twice a year.

In partnership with the Small Business Administration, the Norfolk Department of Development and Norfolk Redevelopment and Housing Authority, NWI sponsored a Business Fair. Three hundred citizens and small business owners responded. Workshops were presented to offer information on Financing, Starting Your Own Business, and Advantages of the Enterprise Community. Exhibits were available from all financial institutions in the City and local colleges and universities. This is an annual event.

NWI sponsored a Home Buyers Fair in partnership with the Norfolk Redevelopment and Housing Authority, Urban League, local banks and retail merchants, and Credit Counseling and Family Services. There was a Home Lottery -- win a home for a dollar. This was an opportunity for persons interested in home ownership to talk with qualified professionals and to get assistance with qualifying for a home loan. Free workshops are scheduled for determining whether someone is qualified, preparing loan applications, re-establishing credit and budgeting. Each person that attended is contacted and offered assistance. A coalition has been established, "HomeNet", that will offer resources, services, training and support to the new or first time home buyer.

NWI contracted with Tidewater Community College to provide GED preparatory classes for EC Residents. Approximately 175 have taken classes and are in the process of testing to receive their certification. NWI Adult Basic Education classes are available for EC residents in the Park Place Multi Service Center and the Madison Career Center.

NWI is sponsoring a volunteer training program with Norfolk Redevelopment and Housing Authority and Volunteer Hampton Roads. Volunteer training will be provided to Public Housing residents -- 25 persons will be trained as coordinators and 100 will be given volunteer training. NWI will offer training/education to the volunteers that gain experience through volunteering

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Chairman JOHNSON of Connecticut. Thank you very much, Mayor.

And now the Honorable Dick Posthumus, Senate Majority Leader in the State of Michigan.

STATEMENT OF THE HONORABLE DICK POSTHUMUS, MAJORITY LEADER AND STATE SENATOR, STATE OF MICHIGAN

Mr. POSTHUMUS. Thank you, Madam Chair. I would like to thank you for the opportunity to come here today and talk to you a little bit about what we have been doing in Michigan to bring new life to some of our blighted areas.

Working together, the Michigan Legislature and our Governor, John Engler, has taken on a problem that has, really, leaders throughout the country kind of wringing their hands in frustration.

Michigan, like most other States, have blighted areas, most of which are in urban areas, but many of which are in our rural areas as well. They come in all sizes. They come in all shapes. And they characteristically are represented by residences that are decaying to the point to where many of those that are living there are losing hope or already lost hope. Some have abandoned their homes and leaving them in the hands of greedy slumlords or the hands of the runaway drug culture. Many of the businesses there have already closed down because they couldn't make it economically, and those that have stayed are barely, barely hanging on.

The solution that we developed to begin to reverse this decay is one that we think is so simple that, for many people, it is hard for them to understand. We have taken the idea that we believe has transformed Michigan from being the broken buckle of the Rust Belt, as our Governor has described it, to changing it to the turbocharged engine performing the high-performance heartland economics that we need.

And it is based on the belief that high taxes are negative, that high taxes hinder communities and their growth, that government programs make people dependent, not independent. And is it any wonder, then, that in our decaying areas, where we have the highest tax rates, where we have the biggest government programs, that we continue to see blighted problems?

So what we have done in Michigan is told the residences and the businesses in those areas, just keep your taxes, keep your State taxes, keep your local taxes that you would normally pay over the next 15 years. That is right. Boiled down in its simplest form, we are saying that people in renaissance zones are not going to pay any State or local taxes. It is based on the belief that when government lets loose of the reins that affect investment and production, there will be a change, there will be a rebirth, there will be a renaissance.

I might point out at this time, there is some difference between what we are doing in our renaissance zones and what the Federal Government has done with empowerment zones. In essence, with the empowerment zones, the Federal Government takes taxpayer money and redistributes it. What we have decided to do, instead, is let people keep their own money; let them spend it on their families, on their homes, on their businesses. I believe that is government at its best. It is government that gives individuals and businesses much more room to expand and to grow.

Our renaissance zones, I believe, serve as a redevelopment model for States all around the country. It is fairly simple. It is easy to duplicate. And very honestly, it works. And we have only had them now less than a year, and I, I think, left you a format that explains where our zones are, how they operate, some of the businesses that have already announced their redevelopment efforts.

Very simply, what we are saying is, to all the homeowners and businesses, not just the new ones that are moving in, but to all of them that are in that specific identified area, that they would be able to waive their State and local property taxes, almost all of them, and there are seven of them in particular; that is, Michigan single business tax, which is our form of the business tax. It is a value-added tax. It includes Michigan personal income tax. It includes Michigan's 6-mill property tax for education. It includes the local personal property tax, the local real property tax, the local income tax, and, in the case of Detroit, also the utility users tax.

Someone might say, well, what is the catch? There really is no catch. What you see is what you get.

And I might point out just a couple of the specific examples of how it has worked in two of our cities, Grand Rapids and Detroit. The first example is in Detroit where SBF Automotive, Incorporated, which is located or was located in a suburb west of Detroit and is a supplier to the auto industry had decided that it needed to expand. When it did so, based on the Renaissance zone in Detroit, it decided to move its facilities into the city of Detroit. In fact, most of the people that were working there came from the city, and they were having to bus them out. Now they are not going to have to do that and, in the process, are helping to rebuild the city itself.

On the other side of the State, in west Michigan where I come from, in Grand Rapids, we had a business called P.B. Gast & Sons. It was located right in the heart of the city, a very rundown area, and they were faced with a dilemma. It was a 100-year-old company that was expanding. They were looking, very honestly, again, to expand to the suburbs, but with our renaissance zones, they decided that they now could do it right in the city. And about 3 weeks ago, I was there for the ground-breaking of a 30,000-square-foot addition right in the middle of the city of Grand Rapids.

If you take up just in the about 11 months now that we have been operating, or 10 months we have been operating this program, already, just in the private sector, we have had announcement of investors of $290 million of new funding, new companies, new business and expansions that mean about 3,000 new jobs in our most blighted areas.

We are, in my view, creating a process which is based on the idea that, in order to rebuild a community, they need good housing stock, they need good businesses that are doing well in the industrial sector, as well as profitable retailers. And by reducing the cost of living and working in these areas, we are rebuilding these communities for tomorrow.

I appreciate the chance to share that with you, and I will be glad to answer any of your questions.

[The prepared statement follows:]

Senator Dick Posthumus testimony before U.S. House Ways and Means Subcommittee on Oversight on Oct. 28, 1998

1. Congresswoman Johnson--I would like to thank you for the invitation to come today and provide testimony about a unique effort in Michigan to bring new life to blighted and decaying areas scattered throughout the two peninsulas in our state.

2. Working together, the Michigan Legislature and our governor, John Engler, took on a problem that has leaders around the country wringing their hands in frustration.

3. Like every other state, Michigan has wrestled with the problem of blighted areas. These come in all shapes, sizes and locations. They are urban and rural.

4. The residential areas have decayed to the point where many of those living there are losing or have lost hope.

5. Many have abandoned their homes altogether, leaving them in the hands of greed-driven slumlords or to the devices of a runaway drug culture.
6. Many of the businesses in these areas left long ago with their memories kept alive by gutted out hulks of buildings that have been left to die. And, those businesses still there are struggling, just hanging by their financial fingernails on an economic ledge where costs are zooming out of sight.
7. The solution we developed to reverse this decay and to spur new development was so simple that for many people it is hard.
8. What has transformed Michigan from being the broken buckle of the Rust Belt, as Gov. Engler described it, to the turbo charged engine powering the high performance heartland of this country is one thing.

9. It's the belief in the negative power of taxes. High taxes hinder communities not help them.

10. Government programs make people dependent, not independent. And in our decaying areas we have some of the biggest government programs and highest taxes.

11. So, we told the residents and the businesses in these areas to keep just about all the state and local tax money that they would normally pay over the next 15 years.

12. That's right, boiled down to its simplest, lowest-common denominator, people in the Renaissance Zones get to keep their own money.

13. It's a belief that when government lets loose of the reins that affect investment and production, there will be a change, a rebirth, a renaissance.

14. It's very important to point out the difference between

empowerment zones as created by the federal government and Renaissance Zones created by the state of Michigan. With empowerment zones, the federal government takes taxpayer's money and redistributes it.

15. With Renaissance Zones, we let the people keep and spend their own money on their homes, their families and their businesses.

16. It's government at its best. It's a government that gives individuals and businesses as much room as possible to grow and thrive.

17. Our Renaissance Zones serve as a redevelopment model for state's around the country. It's simple and easy to duplicate. And, most important, it works..

18. Here are some quick specifics of the program in Michigan, which by-the-way, I had the privilege of being the prime

sponsor:

19. All homeowners and businesses inside these specially designated areas are waived from paying the seven principal state and local taxes in Michigan.

20. These are Michigan's Single Business Tax, the state's business tax that's based on value-added, the Michigan Personal Income Tax, Michigan's 6 mill State Education Tax, the Local Personal Property Tax, the Local Real Property Tax, the Local Income Tax and the Utility Users Tax.

21. You might ask, "what's the catch?"

22. There is no catch. What you see is what you get.

23. I would like to share two specific examples showing how the Renaissance Zones have impacted relocation decisions by companies, one in Detroit and one in Grand Rapids.

24. The first is SBF Automotive Inc. of Livonia, in a suburb, just west of Detroit, which builds seat components that are ultimately installed in Ford Motor Co. vehicles.

25. SBF Automotive Chairman Sid Taylor decided to move his business to Detroit to take advantage of the special tax breaks. Because he had bussed most of his employees to the suburban location from the city of Detroit, the move will mean an additional savings.

26. In Grand Rapids, on the other side of the state, the P.B. Gast & Sons company faced a dilemma. Located in a rundown, older part of the city, they faced the need to expand.

27. Because of the high taxes in a very urban area, the company's officers were faced with the decision to leave the city of Grand Rapids after being located there for more

than 100 years.

28. The dilemma was resolved for them because of their location inside the city's Renaissance Zone. The company has broken ground for a 30,000 square foot addition right in the middle of the city of Grand Rapids. The million dollar investment will keep the century-old company inside the city and keep it competitive in today's economy.
29. At the beginning of this month, private firms were investing more than $290 million for projects in the zones. That adds up to more than three thousand new jobs.
30. The development pipeline is abuzz with many more projects to come.
31. Renaissance Zones are based on the idea that thriving communities need successful industry, profitable retailers and good homes.

32. By reducing the cost of living and working in these areas

    we are rebuilding these communities for tomorrow.

33. I would be happy to answer your questions.

34. Thank-you very much.

Chairman JOHNSON of Connecticut. Thank you very much. I appreciate your testimony. And we will get back to questions.

Ms. Blaustein.

STATEMENT OF JOAN S. BLAUSTEIN, MANAGER, SPECIAL PROJECTS, DEPARTMENT OF CITY PLANNING, CITY OF PITTSBURGH; ACCOMPANIED BY BEVERLY CAROL GILLOT, PITTSBURGH/ALLEGHENY ENTERPRISE COMMUNITY COORDINATOR

Ms. BLAUSTEIN. Thank you. I would like to thank you, Madam Chairwoman, for the opportunity to talk to you today. In particular, I want to thank your distinguished colleague Representative Bill Coyne for his ongoing support of our program, as well as Congressman Mike Doyle, who has been instrumental in forming and maintaining this partnership. Although their districts aren't in the enterprise community, I want to thank Congressmen Frank Mascara and Ron Klink for their support of our efforts.

The Pittsburgh/Allegheny Enterprise Community won designation in December of 1994 and was awarded just about $3 million in Social Services Block Grant funds.

Our enterprise community is made up of six municipalities, the cities of Pittsburgh, Duquesne, McKeesport, the boroughs of Homestead, West Homestead, Rankin, and Allegheny County.

Over the past 3 years, this partnership has made tremendous strides in implementing the objectives set forth in the Strategic Vision for Change. In that plan, we identified four major strategies for realizing this vision: First, to create a new neighborhood housing model that includes the elimination of concentrated public housing developments and the creation of a broad range of housing choices; establish a community-owned preventative service system that includes family support centers, after-school safe places, community centers, and community college center of opportunity; to create a state-of-the-art community policing program; and to create employment and investment opportunity through capital formation and the development of brownfields.

One of the most critical accomplishments of this program has been the formation of the 26-member Governance Committee. This committee is unique compared to others in the country in that it is made up of more citizens than elected officials. The Governance Committee task forces are organized by functional areas rather than geographic areas.

The areas that make up the Pittsburgh/Allegheny Enterprise Community are generally more distressed than the surrounding area. Family incomes in the EC range from 18 to 42 percent below the county averages. The poverty rate overall in Allegheny County is 11 percent, but the poverty rates in the EC communities range as high as 42 percent. Housing values and rent levels are lower in these communities. The elderly population is proportionally higher there.

Pittsburgh grew as a central city that was the focal point for commerce, trade, and manufacturing and services for the region. Historically the area has been very dependent on large companies and heavy manufacturing industries. These industries were fueled by the availability of raw materials and the inland waterways that provide inexpensive and ready transportation.

But in the past several decades, Pittsburgh's economic base has shifted dramatically. With the well-documented decline in the region's integrated steel industry, Pittsburgh's economy has moved from manufacturing-oriented to service-oriented. This economic restructuring has been very painful. The basic steel industry lost 66,000 jobs, while other manufacturing industries lost about 81,000 jobs between 1979 and 1996. Many of these jobs are located in the enterprise community areas. Manufacturing now represents only 12 percent of the employment base, down from 30 percent in 1970. While manufacturing is still important, it is not the driving force behind the local economy any longer.

Politically, our area is extremely fragmented. This situation has made previous redevelopment efforts difficult, if not impossible. Allegheny County is the most fragmented county in the United States, with 130 municipalities, 116 police departments, 58 public service dispatching points, 100 comprehensive land use plans, and 43 school districts. With more than 40 economic development groups in the region, there are multiple goals and fragmented efforts.

Our region is in transition stage now, though. Many initiatives under way in the area reflect a mix of attention to the economy, the environment, education, quality of life, and local communities. An area like ours that has had to confront so many challenges has to avail itself of Federal intervention that allows opportunities to leverage other funds and harness local energies. The Empowerment Zone/Enterprise Community Program has given us those opportunities.

The partnership that was created through the designation of the Pittsburgh/Allegheny EC, which is unprecedented both in our region and in the EZ/EC Program, has brought together areas whose common thread is not political boundaries or geographic location, but the desire to overcome obstacles of unemployment, family distress, and disinvestment.

The designation as an EC has been the catalyst for institutional reform, reinvestment, and a minute hope for the future by stengthening our communities from the family up.

The $3 million in Social Services Block Grant funds has been able to leverage over $182 million in private and other public funds. These funds have been used for the demolition of over 1,500 existing public housing units to make way for new neighborhood housing models that include mixed income, mixed tenure, racially integrated developments with both rental units and home-owned households.

The expansion of the McKeesport Family Support Center that will serve as an incubator for the provision of human services to that community could be a national model for human services reform.

The creation of a multijurisdictional weed and seed zone has resulted in the reduction of crime and the addition of 17 new police officers. We have created a serious offenders program that will serve 120 habitual juvenile offenders over 3 years. The creation of a pool of $60 million in flexible public capital for economic development in the Pittsburgh portion of the EC.

We have created an economic and industrial development corporation to purchase real estate for development in the Pittsburgh area, too. Seven projects have begun, which will lead to the retention of 789 jobs and the creation of 384 new jobs. These projects have leveraged over $122 million in private investments.

There has been the development of a 210-boat slip marina in an old industrial mole site in the McKeesport section of the EC, and the creation of 17 equipped Internet access sites for low-income communities. Three hundred individuals have been trained to date.

These accomplishments detail some of the successes in the Pittsburgh EC during the first 3 years of this 10-year designation. The continued success of the partnership will ultimately be measured by whether there will be substantially more employed residents, by whether there are substantially more investments in land, building, and businesses, and most importantly whether the economic characteristics of the areas in the EC become closer to that of the rest of the region through increases in household income, home ownership, business investment, and the amount and accessibility of capital.

The next hurdle our community faces is the challenge of demonstrating the value and market advantages as former industrial sites. Over 1,500 acres in the city of Pittsburgh and the municipalities are in various stages of cleanup, reuse, nonuse, and development.

As the Pittsburgh/Allegheny region was once the heart of this country's industrial production, now it is the locus of one of the greatest concentrations of former industrial sites with the potential for economic reuse anywhere in our country. Our riverfront land, ripe for redevelopment, represents one of our region's greatest assets.

The enterprise community now has the dual challenge of dealing with all the issues of site reuse and dealing with the legacy of multiple jurisdictions that have historically had difficulty collaborating around almost any issue. The EC provides the structure that will serve as the platform to begin that collaboration, allow for knowledge transfer leading to site development and economic revitalization, and bring the stakeholders to the table with the goal of embracing the advantages of a regional approach to development.

The skills and tools we need to attack the technical aspects of brownfield redevelopment are readily accessible in our EC, but the adaptive aspect of the problem is a greater hurdle and can be approached on the enterprise community platform given the proper guidance and support.

I want to thank this committee for the opportunity to speak about our Pittsburgh/Allegheny Enterprise Community. And I look forward to our continued participation and your continued support of the Empowerment Zone/Enterprise Community Program. Thank you.

[The prepared statement follows:]

U. S. House of Representatives
Committee on Ways and Means
Sub-Committee on Oversight

Hearing on the Performance of the Empowerment Zone/Enterprise Community Program

Testimony from Pittsburgh/Allegheny Enterprise Community

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On behalf of Pittsburgh/Allegheny Enterprise Community I would like to thank this Subcommittee for the opportunity to speak to you today. In particular I would like to thank your distinguished colleague Representative William Coyne for his ongoing support of this program. We would like also acknowledge Congressman Michael Doyle who has been instrumental in forming and maintaining this partnership. Although their districts are not within the Enterprise Community, I would also like to recognize Congressmen Frank Mascara and Ronald Klink for their support of our efforts.

The Pittsburgh/Allegheny Enterprise Community (EC), won designation under the Federal Empowerment Zone Program in December 1994, and was awarded $2.95 million in Social Security Block Grant funds. The EC is made up of six municipalities—the Cities of Pittsburgh, Duquesne, McKeesport, the Boroughs of Homestead, W. Homestead, Rankin, and Allegheny County. Over the past three years, the Partnership has made tremendous strides in implementing the objectives set forth in the Strategic Vision for Change created in 1994. We have identified four major strategies for realizing this vision:

- Create a new neighborhood housing model that includes the elimination of concentrated public housing developments and the creation of a broad range of housing choices for all
- Establish a community owned preventive services system that includes family support centers, after school places, community centers, and community college center of opportunity
- Create a state of the art community policing program
- Create employment and investment opportunity through capital formation and the development of brownfields.

One of the most significant accomplishments is the formation of a 26 member Governance Committee appointed by the nine elected officials in the EC. This Committee is unique compared to others in the country in that it is made up of more citizens than elected officials. The Governance Committee task forces are organized by functional areas of the Strategic Plan—housing, human services, economic development and public safety—rather than geographic areas.

The areas that make up the Pittsburgh/Allegheny Enterprise Community (EC) are generally more distressed than the surrounding area. Family incomes range from 18% to 42% below county averages. The poverty rate is about 11% in

Allegheny County, with the highest concentrations in the EC areas. In 1990, the EC poverty rates were 26% in Duquesne, 32% in Homestead, 24% in McKeesport, 22% in Pittsburgh, 41% in Rankin and 17% in West Homestead. By comparison, the national poverty rate has traditionally hovered around 13%. Housing values and rent levels are lower in these communities. The elderly population is proportionately higher as there has been an outmigration of younger persons. In 1990, elderly rates ranged from 18% in Pittsburgh to 24% in Homestead.

Pittsburgh grew as a central city that was a focal point for commerce, trade, manufacturing and services for the region. Historically the area has been dependent on large companies in heavy manufacturing industries. The heavy manufacturing industries (particularly steel) were fueled by the availability of raw materials and the in-land waterways that provided inexpensive and ready transportation. Thus, the local economy was focused around the rivers and experienced boom and bust times relating to the business cycles.

In the past several decades Pittsburgh's economic base shifted dramatically. With the well-documented decline of the region's integrated steel industry, Pittsburgh's economy moved from a manufacturing-oriented economy to a service-oriented economy. This economic restructuring has been painful. From 1979-1996, the basic steel industry lost 66,000 jobs while other manufacturing industries lost another 81,000 jobs. Many of these jobs were located in the EC areas. Smaller, more specialized and competitive manufacturers emerged. However, they will never replace the lost manufacturing jobs. Manufacturing now represents about 12% of the employment base, down from 30% in 1970. While manufacturing is still important, it is not the driving force behind the local economy.

Politically, the local area has an extremely fragmented governmental structure. Allegheny County includes more than half of the region's population and is the most fragmented county in the United States. It has 130 municipalities, 116 police departments, 58 public safety dispatching points, 100 comprehensive land use plans and 43 school districts. With more than 40 economic development groups in the region, there are multiple goals and fragmented efforts.

The region is in a transitional stage. The many initiatives underway in the Pittsburgh area reflect a mix of attention to economy, the environment, education, quality of life and local communities. In an area like ours, that has had to confront so many challenges, particularly has to avail itself of the Federal intervention that allows opportunity to leverage other funds and to harness local energies. The Empowerment Zone/Enterprise Community program has given us those opportunities.

The partnership created through the designation of the Pittsburgh/Allegheny Enterprise Community, which is unprecedented in both this region and in the EZ/EC program, has brought together areas whose common thread is not political boundaries or geographic location, but the desire to overcome obstacles of unemployment, family distress, and disinvestment.

The designation as an Enterprise Community has been the catalyst for institutional reform, reinvestment and a renewed hope for the future by strengthening our communities from the family up. The Pittsburgh/Allegheny EC which was awarded $2.95 million in Social Security Block Grant Funds has been able to leverage over $182 million in private and other public funds.

- The demolition of over 1500 existing public housing units to make way for new neighborhood housing models that include mixed- income, mixed tenure, racially integrated developments with both rental units and home-owner households.
- Expansion of the McKeesport Family Support Center that will serve an additional 100 needy families. This Center will be an incubator for the provision of Human Services, and could be a national model for Human Service system reform.
- Creation of a multi-jurisdictional Weed and Seed Zone that has resulted in a reduction in the crime rate and the addition of 17 new police officers. 10 new youth programs established.
- Creation of a Serious Offenders Program that will serve 120 habitual juvenile offenders over 3 years. This program has attracted over $4 million in foundation and other investments.
- Creation of a pool of $60 million in flexible, public capital for economic development in the Pittsburgh portion of the EC. Has financed 15 projects with investments of over $175 million.

- Creation of an Economic and Industrial Development Corporation (PEIDC) to purchase real estate for development in the Pittsburgh portion of the EC. 7 projects have been started with a total cost of over $180 million which will lead to the retention of 789 jobs and the creation of 384 new ones. These projects have leveraged over $122 million in private investments.

- The development of a 210-boat slip Marina on an old industrial mill site in the McKeesport section of the EC. $6 million invested to date and has led to the creation of 75 jobs.

- 160 acres of vacant /underutilized land has been acquired; 50% of sites ready for development.

- Creation of 17 equipped internet access sites for low income communities. 300 individuals trained to date.

These accomplishments detail some of the successes the Pittsburgh/Allegheny Enterprise Community has during the first 3 years of this 10 year designation. The continued success of the Partnership will ultimately be measured by whether there will be substantially more employed residents because of the strategy; by whether there are substantially more investment in land, buildings and businesses; and by whether the economic characteristics of the areas in the EC become closer to that of the region as a whole through increases in household income, home ownership, business investment, and amount and accessibility of capital.

Now our Community faces the challenge of demonstrating the value and market advantages of former industrial sites. Over 1,500 acres in the City of Pittsburgh and municipalities of the Monongahela River Valley in Allegheny County are in varying states of cleanup, reuse, non use and development. As the Pittsburgh/Allegheny region was once the heart of this country's industrial production, it is now the locus of one of the greatest concentrations of former industrial sites with potential for economic reuse anywhere in the country. Our riverfront land, ripe for redevelopment, represents one of our region's greatest assets.

The Enterprise Community has the dual challenge of dealing with all the issues of site reuse, and dealing with the legacy of multiple jurisdictions that have historically had difficulty collaborating around almost any issue. The EC provides the structure that will serve as the platform to begin the collaboration, allow for knowledge transfer leading to site development and economic revitalization, and to bring the stakeholders to the table with the goal of embracing the advantages of a regional approach to development.

When the collaboration is established, then the ultimate challenge of creating a regional "quality of life" plan can begin. The skills and tools to attack the technical aspects of brownfield development are readily available in the Enterprise Community. The adaptive aspect of the problem is the greater hurdle and can be approached on the Enterprise Community platform given proper guidance and support.

I would like to thank this Committee for this opportunity to speak and all of us in the Pittsburgh/Allegheny Enterprise Community look forward to the continuation of our participation with the Empowerment Zone/Enterprise Community Program.

Chairman JOHNSON of Connecticut. Thank you. Thank you very much. Very interesting.

Ms.—is it Gillot?

Ms. GILLOT. Yes. I am just here to answer any questions you may have.

Chairman JOHNSON of Connecticut. Thank you.

Mr. Gundersen.

STATEMENT OF DANIEL C. GUNDERSEN, DIRECTOR OF ECONOMIC DEVELOPMENT, CITY OF PHILADELPHIA EMPOWERMENT ZONE

Mr. GUNDERSEN. Congresswoman Johnson, Members of the Oversight Committee, thank you for this opportunity to comment regarding conditions existing within the Philadelphia Empowerment Zone and impacts that the program has had within the city of Philadelphia.

In late 1994, about 2½ square miles of Philadelphia and a portion of Camden, New Jersey, were selected as one of only six urban zones in the country, the smallest of the zones. These neighborhoods were chosen precisely because of their pervasive poverty, unemployment, and distress. Here are some statistics available at about the time of designation as an empowerment zone. Of the 39,000 residents in the Philadelphia zone, 49 percent live below the poverty line, and at least one in four adults are unemployed. The largest private employer in the Philadelphia zone has a work force of less than 140. The two largest employers are both not-for-profit inner-city hospitals. Over two-thirds of the employment base is with retail, religious, human, or social organizations. In most every corner of the Philadelphia zone, there has been no new construction in over 30 years. In fact, most of the zone is in an area of the city that has lost 100,000 jobs over the last 25 years.

Things are changing. We are witnessing an unprecedented degree of public/private collaboration. Zone funds have leveraged local, State, and additional Federal dollars and a small army of help from the grass roots to Washington, D.C.

I am pleased to report that the Federal Government has delivered on its promises to deliver support. A representative from the Regional Secretary's Office of the U.S. Department of Housing and Urban Development meets with senior-level zone staff several times each month. This hands-on approach is apparent at the highest levels, too, from the Community Empowerment Board, chaired by Vice President Gore, and its member agencies in the Cabinet. For example, representatives of the General Services Administration, as I speak to you today, are conducting a workshop for Philadelphia zone businesses wanting to compete for Federal contracts.

All of our combined efforts are beginning to bear fruit. Today there are several indicators of early success and signs that fundamental economic change is under way. Approximately 50 new businesses have been attracted to this Federal urban zone, and several existing businesses have expanded operations. They join the approximately 800 now operating in the Philadelphia zone.

There has been over $32 million in public and private lending in the Philadelphia zone since designation, resulting in a commitment from businesses to hire 1,000 new employees over the next 3 years.

The zone has tracked an additional 3 dozen new companies to the zone that received no public financing.

Once-vacant buildings throughout the zone are being sold and put back into productive use. New construction is finally taking place; a large supermarket, a sports arena, pharmacy, a new office complex, an infrastructure to establish an industrial park. The total financing for business-related projects has been calculated at over $32 million since designation. Seventy percent of this has occurred in the first 9 months of this year, an explosion of activity for such a small section of the city.

These economic indicators are affected by the empowerment zone investments being made at the community level. Hundreds of residents participate in a democratic process for deciding how best to solve the problems of their neighborhoods. Contracts totaling over $33.8 million have been awarded to service providers to execute community-based benchmark projects. They include establishment of three community lending institutions and 21 community development projects, five relating to family and children's issues, two to support housing issues, five to support a healthy community, six to enhance community safety, and three to support arts, culture and recreation.

Despite this progress, serious economic development challenges remain. This summer we conducted a survey of 793 EZ businesses in Philadelphia. Fifty-four responded. We found that 16 percent utilized the EZ wage tax credit. Sixty-three percent reported having EZ residents employed, and of these businesses, 26 utilized the credit. Greater than 60 percent of all respondents have future hiring plans.

This suggests that while the credit can be of value, some businesses may not understand or have the accounting controls to utilize the credit, or do not have or show a Federal tax liability and cannot utilize the credit. In the Philadelphia zone where most businesses are very small and likely not very profitable, this suggests the need for more technical assistance to help businesses grow to the point where the credits can be utilized.

Businesses are finding it difficult to locate suitable space in the zone. The Philadelphia zone is only 2.5 square miles. There are only so many good prospects. We need to find ways to renovate older structures more cost-effectively, we need to spur new development, and we need to compete with suburban areas for construction of state-of-the-art buildings. And we need to make it easier for parcels of land to be assembled for business purposes.

A big challenge is providing full-scale technical assistance for entrepreneurs in the preventure stages, early start-up businesses and struggling enterprises.

To conclude, while significant challenges remain, there is evidence to suggest that the Philadelphia Empowerment Zone is experiencing a critical shift in the neighborhood economy. New businesses are forming. Aggressive real estate transactions are taking place. And there is solid and active interest from prospective businesses.

In one of the zones we can envision high technology companies finding a home; in another, retail and entertainment venues are blossoming; and in the third area, distribution and light manufacturing is making a comeback.

It is too early to claim unqualified success. Our momentum, however, indicates that the zone benefits are being multiplied.

Mayor Rendell commends the administration and Congress for recognizing the positive influences that the Empowerment Zone Program has had in communities around the country by expanding the program under the Taxpayer Relief Act of 1997. Moreover, Mayor Rendell applauds the Federal Government for its willingness and follow-through in making continuous improvements that strengthen the program.

Thank you for this opportunity to submit testimony on the performance of the Philadelphia Empowerment Zone before this Subcommittee on Oversight of the House Ways and Means Committee. Thank you.

[The prepared statement follows:]

SUPPLEMENTAL SHEET

Hearing	**U.S. House of Representatives** **House Committee on Ways and Means** **Subcommittee on Oversight** **Main Committee Room** **1100 Longworth House Office Building** **Subject: Performance of Empowerment Zone/Enterprise Community (EZ/EC) Program** **October 28, 1997**
Witness	**Daniel Carl Gundersen** **Director of Economic Development** **Philadelphia Empowerment Zone** **1600 Arch Street, 13th Floor** **Philadelphia, PA 19103** **(215) 686-2000; (215) 686-8304 fax** **Email address: dan.gundersen@phila.gov**

Topical Outline: **A Review of Performance and Economic Conditions Within the Philadelphia Empowerment Zone**

In late 1994, about 2 ½ square miles in Philadelphia and a portion of Camden, New Jersey were selected as one of only six urban Empowerment Zones in the country. These neighborhoods were chosen precisely because of their pervasive poverty, unemployment and distress. In the Philadelphia Empowerment Zone today, there are several indicators of early success and modest signs that fundamental economic changes are under way. Private, public and community-based resources are helping spur new construction in some areas for the first time in over 30 years. Approximately 50 new businesses have been attracted to this federal urban zone and several existing businesses have expanded operations. There has been over $32 million in public and private lending in the Zone since designation, resulting in a commitment from businesses to hire 1,000 new employees over the next three years. The confluence of several intervention strategies helps to explain the changes taking place. Chief among these strategies are unprecedented public/private collaboration, new financing and incentive programs, real estate in prime locations, available labor, new market niches, and community-driven sustainability efforts currently supported by over $33.8 million of Empowerment Zone Title XX resources. There remain difficult economic development challenges to be addressed, such as: a) the shortage of suitable available space for business activity; b) lack of incentives geared toward assisting start-up and very small businesses not yet demonstrating profitability; c) lack of full-scale technical assistance for entrepreneurs in the pre-venture stages, for early start-up businesses and struggling enterprises, and; d) limited capital for community-based debt and equity financing. It is too early to claim unqualified success for the Philadelphia Empowerment Zone. The momentum that has been achieved, however, can be directly linked to the designation of the area as a federal Empowerment Zone. It is critical to maintain the strong spirit of partnership and high level of quality assistance that is being provided by the federal government to the local EZ/EC communities. It is also necessary to ensure that financial incentives can be utilized by businesses at appropriate stages in their development to bring about increased employment and growth opportunities. Moreover, government and business interests must continue to support the efforts of community-based representatives in striving for sustainable community development and economic growth.

Testimony Presented to the
U.S. House of Representatives
House Committee on Ways and Means
Subcommittee on Oversight
Nancy L. Johnson, Connecticut, Chairman

October 28, 1997

Daniel C. Gundersen
Director of Economic Development
Philadelphia Empowerment Zone

Introduction

In late 1994, about 2 1/2 square miles in Philadelphia and a portion of Camden, New Jersey were selected as one of only six urban Empowerment Zones in the country. These neighborhoods were chosen precisely because of their pervasive poverty, unemployment and distress. In the Philadelphia Empowerment Zone today, there are several indicators of early success and modest signs that fundamental economic changes are under way.

Private, public and community-based resources are helping spur new construction in some areas for the first time in over 30 years. Approximately 50 new businesses have been attracted to this federal urban zone and several existing businesses have expanded operations. There has been over $32 million in public and private lending in the Zone since designation, resulting in a commitment from businesses to hire 1,000 new employees over the next three years. An additional $33.8 million is budgeted from Title XX resources to improve the social, human and economic conditions of the neighborhoods.

The testimony presented here today focuses on some of the intervention strategies and positive influences that are driving change in the Philadelphia Empowerment Zone. Some challenges facing business development and sustainable community development are addressed. The perspective provided is that of an economic development practitioner who is on contract with the City of Philadelphia to help advance job creation and business activity within the Empowerment Zone. The focus here is primarily on the economic conditions in the Zone.

Other Empowerment Zones or Enterprise Communities may not share the Philadelphia experiences. Although there are in fact many similarities amongst the Zones and urban environments in general, the Philadelphia Zone has certain distinctions, which make for uneven comparisons. Firstly, by legislative mandate, application as the sole bi-state Zone dramatically limited the population that the Zone could serve, and as a result the Philadelphia Zone includes only 2.5 square miles of a city that comprises 131.2 square miles. Secondly, the Philadelphia Zone is an area of strikingly poor resources. The largest private employer in the Philadelphia Zone has a workforce of less than 140. The two largest employers are both not-for-profit inner city hospitals. There are no resource-rich institutions within the Zone. In short, the census tracts of the Zone are areas of most concentrated poverty and are the least likely to benefit from peripheral or circumstantial development occurring elsewhere in the City.

From this perspective, however, the relatively small size of the Zone and its disadvantageous economic position makes any progress all the more apparent and significant. It is hoped that evaluation of the Philadelphia experiences by this Subcommittee and federal agencies may present some opportunities for overall EZ/EC program improvements.

The Starting Point

The state of economic development in the Empowerment Zone today needs to be evaluated from the starting point of federal designation, December 21, 1994. At that time, the neighborhoods of the Philadelphia Empowerment Zone had among the highest rates of poverty and lowest educational attainment [As described in the Philadelphia/Camden Empowerment Zone Strategic Plan ("Application") submitted to the U.S. Department of Housing and Urban Development]. More importantly, these neighborhoods had the fewest viable businesses and the highest unemployment; in other words, the fewest opportunities for individual self-sufficiency. They were neighborhoods that were isolated from mainstream regional and global economies.

The business outlook in the Empowerment Zone was dire. A street survey conducted by volunteers for the Empowerment Zone during the summer of 1995 confirmed the existence of an underground economy including large numbers of unregistered businesses and illegal enterprises. More than two thirds of the total employment was in social service or retail sectors. The Zone included some once proud "mom-and-pop" stores, but not a single supermarket. Residents complained of having to travel miles on foot and by public transit to buy many basic goods. While in other parts of the city and nation businesses opened and closed each day, in the Zone, it was hard to imagine businesses opening up at all. To the contrary, businesses were closing down, one-by-one. They were continuing the trend that had resulted in the loss of over 100,000 jobs in this section of the city over the past thirty years. These statistics pointed not only to challenges facing the Zone but also to the overwhelming fragility of businesses in the Zone and to the misallocation of economic resources in non-productive sectors.

Business Development Intervention Strategies

The mere designation of federal Empowerment Zone status and availability of incentives alone can not turn a community around. Many factors need to come together, supported by one another, to provide the necessary focus and momentum for positive change. In the Philadelphia Empowerment Zone at least six such factors have taken hold, greatly influencing business development.

1. *Public/Private Collaboration* - The City, through the Mayor's Office and City Commerce Department, has provided concerted supports to businesses seeking to locate and grow within the Zone. The Empowerment Zone Economic Development Office works with businesses on a case by case basis, trying to allay their fears, meet their needs, and uncover the full competitive advantage of a Zone location. This business friendly approach and the active role of the Mayor in negotiating business transactions gives the City an edge over other sites that a business may be considering. The federal government has provided enormous support, encouragement and advice in helping to advance the goals of the EZ/EC program. The Community Empowerment Board chaired by Vice President Gore has been instrumental in providing information and access to government agencies. This show of support has filtered down to the regional level. For example, today in Philadelphia the General Services Administration is conducting a four- hour training session for businesses in the Empowerment Zone that may be interested in competing for contracts from the federal government. Earlier this month, senior level representatives from the local offices of HUD and the Environmental Protection Agency came together at our request to discuss joint efforts at environmental remediation of a large contaminated site at the heart of our Zone. A business is working with the City toward possibly constructing a large distribution and export facility on the site. For these and other reasons, the site has become the centerpiece of the City's request to the EPA for support in becoming a Showcase Communities Project.

2. *Financing and Incentives* - A federal Empowerment Zone offered businesses in the neighborhoods a series of incentives - the Employment wage tax credit, tax exempt bond financing, and accelerated depreciation. The incentives often need to be combined with attractive financing and other supports. Philadelphia's Empowerment Zone set aside over $25 million of its $79 million to help finance business activities. In addition, the City allocated $15 million in HUD 108 resources. A HUD108 loan helped provide financing to expand the Urban Education Center and create 140 jobs. These resources provide available capital in areas where conventional lenders once "redlined".

3. *Location* - The old real estate adage that it's "location, location, location" that determines business success is now working in the Empowerment Zone's favor. The North Central Zone straddles Broad Street and Girard Avenues, providing easy access from anywhere in the region. Its retail potential is directly related to new residential developments, the energies of adjacent Temple University and an emerging Avenue of the Arts North. This helps explain the success of the Beech Retail Project and other projects on Cecil B. Moore Avenue. The American Street community is beginning to absorb the natural growth northward from robust, changed Northern Liberties and Spring Garden East. American Street itself is an unusually wide street for Philadelphia, which permits accessibility for large trucks making deliveries via I-95. West Philadelphia is just minutes from City Line Avenue and the Western suburbs in one direction and in the other direction is the splendid beauty of West River Drive leading to the heart of Center City. Each of these natural advantages is not missed by prospective businesses that are introduced to the Zone. America's more disadvantaged inner city neighborhoods usually are on the periphery of the Center City, downtown areas. Increasingly, their locations represent opportunities for economic growth if provided the inclusive supports available through programs such as the Empowerment Zone.

4. *Labor* - High unemployment combined with available training resources spells opportunity for businesses that are highly dependent on entry level labor, such as office, warehouse and distribution types of businesses. Companies having large labor demands, such as two large suburban-based telemarketing companies, are now considering locations near areas of labor supply, versus attempting to attract urban workers to suburban locations ("reverse commute").

The Zone is responding by establishing Employment Centers in each neighborhood armed with highly sophisticated data bases that will assess worker skills and attributes and make reliable matches with available jobs offered by employers. Philadelphia and Camden have collaborated in the development of this initiative, referred to in the application as the bi-state job bank. Both cities have received notable support from respective state agencies in advancing the project.

5. *Market Niches* - The Empowerment Zone neighborhoods have been devoid of modern conveniences taken for granted elsewhere, such as supermarkets, restaurants, movies and high-end retail establishments. Most of these goods and services fled the area for suburban malls and Center City locations. Retailers are now discovering a huge unmet market and are moving quickly to meet it. In addition to a small supermarket that opened in West Philadelphia and the one moving to construction in American Street, community representatives envision more supermarkets in the Zone. Yet another existing market in the Zone expects to double its size, and two smaller corner grocery stores have opened in recent weeks. These trends are expected to continue as more and more national franchisers and commercial developers comb the Zone for locations to help meet the pent-up demands of the local area. To help capture the interest and explain the benefits to commercial and industrial users, the Philadelphia Empowerment Zone produced bi-state marketing materials, highlighting the advantages of Philadelphia and Camden as places to do business.

6. *Sustainability* - Businesses need to be assured that their employees will be safe and that their investments in buildings and equipment will appreciate over time. The City and its Empowerment Zone representatives and community leaders have made impressive strides recently to improve the appearance and safety of the area. Many of these improvements are outlined later in this document. In addition to these, the Mayor implemented Zero-Tolerance Graffiti Zones that overlay the Empowerment Zone. City crews will remove all graffiti in the Empowerment Zone and where it returns, it will be attacked within 48 hours at no cost to private businesses. Also, the Empowerment Zone communities have purchased mobile police mini-stations. These vehicles are deployed throughout the Zone and serve as a base for police mounted bike patrols. These initiatives, together with the social, human services and infrastructure supports provided by the Zone's Title XX grant, will continue to improve the climate for conducting business.

Accomplishments

The Philadelphia Empowerment Zone is structured to focus on both the neighborhood-based development (also referred to as sustainable community development) needs of the neighborhoods and business development activities designed to encourage business attraction, retention and expansion. The neighborhood-based activities are managed by issue organizers employed by the Empowerment Zone through the Mayor's Office of Community Services. The business development staff functions are coordinated with the City Commerce Department and City's quasi-public development organizations. For purposes of describing Zone accomplishments, what follows are activities presented in two sections: Business Development and Community-Based Development. Following this are sections with narrative describing the current economic development challenges.

Business Development

Today in the Philadelphia Empowerment Zone there are several indicators of early success and signs that fundamental economic changes are under way. In a guest commentary prepared by Philadelphia Mayor Edward G. Rendell that appeared in the September 5, 1997 edition of the *Philadelphia Inquirer*, the Mayor describes four positive indicators. They are new businesses, expanding businesses, new construction and increased investments. What follows is a summation of some of these developments.

At least 50 new businesses have joined the approximately 800 businesses already operating in the Zone. Examples include Global Technologies Solutions in West Philadelphia, a start-up venture that is now negotiating contracts with some of the world's largest corporations. Preventative Security found a home in the North Central part of the Zone and is finding a lucrative market niche for their services. Last year Liberties Construction located in American Street. This year, it expects nearly $4 million in contracts. Each began with Zone support and has since hired from the neighborhoods.

These three companies joined six others in starting operations in the city from suburban home bases. Largely motivated by affordable space and available labor, small firms such as Thermal-Flux from Horsham, Teltek from Ardmore, Samjac from Bensalem and First American Equities from Bala Cynwyd all located in the Zone. They discovered that a city location provides their firms with a competitive edge.

This activity is having a noticeable effect on the local real estate market. Once vacant buildings throughout the Zone are being sold and put back into productive use. Existing businesses also are increasing their investment in the area. In the American Street section of the Zone, Rex-Bonded

Warehouse, Honor Foods and Mrs. Ressler's have expanded or are about to expand. In North Central, Kessler's Supply is growing and in West Philadelphia, the City is helping New Deal Lumber with its expansion plans.

New construction is taking place in the Empowerment Zone for the first time in decades. A new pharmacy and Temple University's Apollo project, a 12,000-seat convocation and sports arena, are spurring new development in North Central, such as the Beech Interplex office and retail project. A 40,000 square foot supermarket will soon be built in American Street – the first new retail construction in this neighborhood in nearly thirty years. In West Philadelphia, new roads and modern infrastructure are nearing completion to create a state-of-the-art industrial park, just minutes from Center City.

Estimates of the number of steady, good paying jobs created are counted in the hundreds. This in itself is encouraging, given the starting point of just two years ago, with dysfunctional neighborhood economies where more than one half of the employment that did exist was in low-skill retail, social and human services, or the so-called underground economy.

Private, public and community-based resources are helping drive fundamental economic changes. Commercial lenders such as Mellon Bank, Jefferson Bank, Wilmington Trust, and Fannie Mae, among others, have committed resources to business deals. The City too has allocated up to $15 million of its HUD 108 resources from the Department of Housing and Urban Development to leverage large projects just for the Zone. Perhaps most significantly, the Empowerment Zone itself has set aside approximately one-third ($24 million) of its share of the federal grant award ($79 million) for business-related debt and equity financing. We believe that Philadelphia was the first Zone in the country to make a business loan.

Total public financing to date for business enterprises, including funds approved, committed or funded since designation (12-21-94) has been calculated at $21,466,915. These monies, from different local, state and federal sources, including the Title XX disbursement to the Empowerment Zone, have leveraged a minimum of $10,656,670 in private financing. Total business-related project financing now exceeds $32 million. These figures represent 40 separate public transactions to 35 different projects. As a condition of receiving such funds, the borrowers have pledged to create additional jobs, cumulatively calculated at 1,000 net new jobs expected within three years.

It is interesting to note that of the 40 public transactions, 28 of these, or 70% has occurred in the first nine months of this year, 1997. This increase is attributable to the start of operations for the Empowerment Zone community-based lending institutions, supported through the Title XX grant, and increased attention and effort on the part of City agencies to support Zone-based activity. Incorporating three separate Zone financial institutions, including development of lending guidelines and appropriate administrative procedures, took less than two years to achieve. Moving forward, the volume of public and private investment in the Zone is expected to continue to increase, and along with it the number of jobs created for local residents.

The Philadelphia Empowerment Zone currently receives over 50 telephone inquiries per week from entrepreneurs seeking to start new operations and businesses interested in relocating existing facilities or expand current operations. Ten businesses that are included in the Zone's current portfolio of prospective businesses project cumulative employment exceeding 1,500 people. Interestingly, 4 of these businesses/projects could result in 200 or more employees each. The City would be pleased if just one committed to the zone, as it would automatically become the Zone's largest private employer/ employment center. The interest of these prospective businesses is very significant, as less than 10% of all Philadelphia businesses employ 50 or more employees.

Community-Based Development

The indicators for economic change outlined above are affected by the Empowerment Zone investments being made at the community level. The Philadelphia Empowerment Zone program also includes money for spending on services and projects that will enhance the overall quality of life in the neighborhoods. Hundreds of residents have participated in a democratic process to decide how to best solve the problems of their neighborhoods.

As an agency, the Philadelphia Empowerment Zone, serving designated areas in American Street, North Central, and West Philadelphia, strives towards achieving the holistic development efforts envisioned in the Philadelphia/Camden Empowerment Zone Strategic Plan. The task is not easy. The neighborhoods that lie within the three designated Zones in the City of Philadelphia have suffered nearly thirty years of neglect from the wounds of economic transformation, the decay of structural facilities and institutions, and a plague of unemployment, poverty, and social problems. Amidst these areas of urban decay, the Zone has been responsible for developing and supporting a Community Trust Board within each zone neighborhood. Creating a structured, neighborhood-based system for community and economic development has posed many obstacles to progress, but it will be the basis of the Zone's ultimate success. Success that is now beginning to come to fruition as economic opportunity and sustainable community development objectives and activities are becoming a reality as "benchmarked projects" are awarded.

The Philadelphia Empowerment Zone's efforts and accomplishments focus on creating economic opportunities within impoverished neighborhoods by developing community banks, growing local businesses, invigorating the local economy, and preparing adults to work. The Philadelphia Zone has awarded ten economic opportunity benchmarks to date and designated $30 million in Zone funds to support the awarded benchmarks. As previously noted, the Zone has successfully spearheaded the creation of three community banks that will provide residents and entrepreneurs with greater access to capital and the technical assistance and support needed to stimulate investment in business, industrial, and housing development. The North Philadelphia Financial Partnership and the American Street Financial Services Center are up and running, and the contract for the West Philadelphia Financial Partnership will soon be executed.

The Philadelphia Empowerment Zone has also made substantial accomplishments in invigorating the local economies within its neighborhoods by awarding benchmarked projects targeted for holistic neighborhood economic development. These benchmarks integrate development efforts within retail and commercial corridors. Examples include $1,000,000 in funds that was awarded to the Cecil B. Moore Business Association to establish a retail and cultural district, and the "Youth Artist Training" and "Rites of Passage" benchmarks that further support the development of North Central's Uptown Cultural District. The Zone also recognizes that preparing adults to work is a necessary part of economic development and has awarded an implementation plan contract for American Street's Life Long Learning Center which integrates the teaching of basic and job specific skills. These benchmarks signal the beginnings of a community-based economic transformation in Philadelphia Empowerment Zone neighborhoods.

The Philadelphia Empowerment Zone also recognizes that sustainable community development critically supports economic revitalization by serving community needs and creating community jobs. The Zone's community development efforts involve building homes for families, preparing children for success, supporting a healthy community, stimulating partnerships for safety, and enlivening communities with arts, culture, and recreation. The Zone's accomplishments include twenty-one community development contracts awarded to date. Two awarded benchmarks address housing issues, five relate to family and children's issues, five support a healthy community, six enhance community safety, and three support arts, culture, and recreation within communities.

American Street's "Compliance Assistance Grants" Benchmark exemplifies the ways in which community development reinforces economic development efforts for holistic revitalization; and fosters a community's self-reliance. The Philadelphia Empowerment Zone has budgeted $60,000 to support this project with the expectation that the provider will leverage an additional $30,070. The Preschool Project has been awarded the contract to carry out this benchmark which will assist thirty family childcare providers to become licensed and registered by the city and state. New childcare centers provide much needed childcare services to community members and create substantive jobs for residents who are or would like to become childcare workers.

American Street's "Facade Repair Program" also demonstrates how the Philadelphia Empowerment Zone is advancing efforts that link community development with economic development. The Facade Repair Program, supported by the City's Office of Housing and Community Development, banks, and foundations, promotes home ownership and the employment of zone residents by rehabilitating fifty comfortable, affordable, and safe homes and providing residents with construction job opportunities. The Zone's community development efforts are just beginning to emerge as real accomplishments; accomplishments that reinforce economic development to further the holistic development of Empowerment Zone neighborhoods.

Despite barriers and obstacles, the Philadelphia Empowerment Zone's efforts are just now yielding results. Thirty-one economic opportunity and sustainable community development benchmarks have been awarded. Over $33.8 million of Zone funds have been budgeted to support those benchmarks, with approximately 88% of those funds directed towards specific economic opportunities objectives and activities. Continued success looks promising. The City of Philadelphia has already committed over $17 million in funds to support twenty-one additional benchmarks and has allocated an additional $2 million in capital expenditures to support the physical rehabilitation of recreation and public facilities within the zones. Eleven foundations have showed their support by funding Empowerment Zone projects, and local non-profit and public organizations continue to submit proposals to take part in Empowerment Zone efforts. The Philadelphia Empowerment Zone is just beginning to build communities from the inside out.

Current Economic Development Conditions

More than 500 new jobs have been pledged or created in the Philadelphia Empowerment Zone within the last two years, with an additional 500 expected to be created within the next several years. Unprecedented resources and cooperation at all levels of government have been marshaled to further social and economic changes throughout the neighborhoods that are part of the Zone. Yet, despite this progress, there are limits to the current levels of government action and several private marketplace impediments toward achieving the overall goal of increasing employment in the Philadelphia Empowerment Zone. By working together, government leaders and the business community can overcome obstacles that stand in the way of greater prosperity.

Findings & Conclusions of Business Survey

The Economic Development Unit of the Philadelphia Empowerment Zone recently mailed a survey to 793 Zone-based businesses. The survey requested information concerning the following information: type of business activity; size and number of employees, including past and future hiring activities; percentage of EZ resident employees and use of EZ Wage Tax Credits; current condition of business and future plans; and, contact with City agencies, including direct contact with EZ staff. We received 54 responses, an approximate 7% response rate.

While the survey can not be considered statistically valid, its findings may be instructive for Philadelphia's planning purposes. The survey indicated that only 9 businesses have used, or can use, the EZ Wage Tax Credit despite there being 63% of the businesses with EZ residents employed. Several possible conclusions can be drawn from this information: a) some businesses may not understand the impact concerning the tax credit; b) some businesses do not have the accounting controls to utilize the tax credit; c) the tax credit may not have much impact on the business if utilized; or, d) organizations do not have, or do not show, a federal tax liability and cannot utilize the tax credit. Related to this, however, approximately 65% (35 of 54) of all companies that responded to the survey have future hiring plans. The majority of the expected growth is between 1 and 5 new hires over the next twelve months. This represents 80% (28 of 35) of all expected new hires for the respondents. The start-up of the Empowerment Zone financed employment centers (bi-state job bank) will help ensure that local residents are identified to help fill these expected job openings. This should also result in increased utilization of the wage tax credits by employers.

It is critical that the credits be available to such businesses at the appropriate stage in their development. As we continue to provide capital and technical assistance to businesses to permit their growth, these credits will become more valued. Some of these businesses have expressed concern that they will be reaching this stage of growth at about the time the credits begin to phase out. A strong argument can be made that extending the credits beyond the year 2004 will be necessary to ensure continued viability of business activity and to encourage local hiring of EZ residents.

Experience has shown that the availability of Wage Tax Credits is a primary factor for larger, more profitable businesses that are considering locating to the Philadelphia Empowerment Zone. Attracting these businesses is absolutely critical for shifting neighborhood economies in a more positive direction and the wage tax credit is the single most powerful incentive available.

Approximately 39% of businesses described themselves as struggling. The majority that responded positively had had some interaction with the Empowerment Zone staff or government agencies in general. The businesses that described themselves as struggling overwhelmingly had little or no contact with government agencies. This finding appears to support one of the key advantages of Empowerment Zone designation, that being, closer collaboration and coordination –technical assistance -- amongst public agencies and the business community.

Major Challenges Facing Business Development in the Zone

Technical assistance and suitable affordable space are two pressing needs of entrepreneurs, existing businesses and businesses looking to locate in the Philadelphia Empowerment Zone.

For both large and small businesses considering a location in the Zone, the number one difficulty is the lack of suitable, affordable, space for businesses seeking to expand or locate in a Zone neighborhood (based on experience, not survey results). This runs contrary to the popular notion that there is more space available than demand. In fact, the Zone's Economic Development Unit is finding it increasingly difficult to keep the interest of businesses considering an inner city location. This is due to the shortage of suitable available space, the time and cost constraints of assembling parcels of land large enough for business activity and the disincentives for new construction in the inner city.

An estimated 30 businesses, which could have employed as many as 300 Zone residents, closed deals at more established locations after seriously seeking a facility in the Zone. Clearly, a significant obstacle to economic development in the Philadelphia Empowerment Zone (2.5 square miles) is the unavailability of sites that are flexible enough to conform to a variety of industrial and commercial uses. The challenges and opportunities in this regard for new business development in the zone are summarized below:

- Several old industrial, multi-story warehouse and manufacturing sites where building layout for a modern, single-use business purpose, is considered functionally obsolete. Costs for redevelopment are significantly greater in many of these buildings versus new construction elsewhere in the region.

- Buildings in move-in condition, having one or two stories and containing less than 75,000 square feet. These structures are in great demand but short supply. In fact, only two or three known buildings are presently available in the Philadelphia Zone, as new and expanding businesses in the Zone have absorbed the best of the stock within the past 18 months.

- Commercial corridors that need to be cleared of decrepit structures or renovated to meet inner city retail demand. There is lack of resources for such commercial and office redevelopment. The process for acquiring such parcels is normally complicated by several factors, including high rates of tax delinquency and incompliant occupants. Oftentimes, this results in the need for government condemnation and increased pre-development expenses.

- A vacant 60 acre tract of land in West Philadelphia that is being developed as an industrial park. Just minutes from Center City and the suburban "Main Line", this land would appear to be ideal for light manufacturing, distribution and labor-intensive enterprises. The industrial park faces steep competition with other City industrial parks, suburban counties and southern New Jersey where development is considered by some developers to be more cost effective.

- Abandoned or underutilized parcels or properties abutting prime development areas that can be assembled for business expansion and attraction purposes. Currently, the City is attempting to assemble several complex land transactions in each section of the Zone for prospective business use. The costs for acquisition, environmental assessment and remediation cannot be built-into such projects without substantial public subsidy.

Responding to these challenges and capitalizing on any of the above development opportunities requires an inordinate level of public and private collaboration. Moreover, the costs in time and money, uncertainties and frustration associated with this work all but guarantees that prospective businesses will look—and likely land—in places other than Empowerment Zone neighborhoods. The long term economic success of the Philadelphia Empowerment Zone neighborhoods is tied in part to our ability to address these challenges. We are open to discussing how the federal government can assist state and local governments to achieve redevelopment goals and job creation objectives.

Another obstacle facing job creation in the Philadelphia Empowerment Zone is adequate provision of technical assistance to entrepreneurs and start up businesses and the need to leverage available capital to sustain lending operations. Each of the three community lending institutions (CLIs), one for each area of the Zone, is designed to provide debt and equity financing to support business activity. The Community Lending Institutions are expected to play a vital role in linking the flow of economic and financial resources to the Zone communities. These groups are working to stimulate economic growth in order to stabilize the local economies while laying the groundwork for sustainable community development. Presently, however, the Community Lending Institutions are limited in their capacities to lend and invest in their respective communities and to provide due on-going support to clients.

In fact, even with the CLI and current government programs, there exist gaps in funding for adequate provision of technical assistance to small businesses and entrepreneurs in the Zone. To help partially address technical assistance needs, the Zone's Economic Development Unit is currently engaged in dialogue with each community lending institution and with the Small Business Support Center, an SBA "one-stop" initiative. The goal is to develop a full-scale technical assistance program that focuses on pre-venture assistance, post-loan counseling and early-stage support and general business consulting. Again, to the extent that local, state and federal governments can help overcome the gaps in providing technical assistance to small businesses, the greater the chances that the Empowerment Zone will realize its goals for fundamental economic change.

The Future of the Neighborhood Economy

All of the above indicates the critical shift in the neighborhood economy; where once the Empowerment Zone neighborhoods were ignored and isolated, they are now areas of new business formation, aggressive real estate transactions and active interest from prospective businesses. Businesses are attracted to each of the three Zone neighborhoods for different reasons. Two and one-half years after designation certain patterns have begun to emerge. The Philadelphia Empowerment Zone is developing specific strategies to capitalize on these patterns.

- West Philadelphia has potential to become a magnet for high technology communications. The Zone already is the location for Wade Cablevision, a Bell Atlantic operations site and the distribution facility for Running Press Publishers. The City is engaged in negotiations with a publishing company and a telecommunications firm, each seriously interested in placing facilities in this section of the Zone that could cumulatively employ 300 or more residents.

- North Central is clearly of interest as a location for franchises, retail and entertainment. High-end retail, diverse restaurants and entertainment venues are included in business projects currently under consideration. The City is currently considering proposals for larger entertainment and retail use in this section of the Zone. All told, estimated employment from prospective businesses interested in the North Central Zone currently exceeds 400 people.

- The American Street section is clearly positioned to capitalize on its distribution and light-manufacturing base. It is currently home to dozens of businesses engaged in food distribution. Several prospective businesses in the food and beverage related industry is searching for sites on American Street. With its easy access to I-95, Center City and suburban markets, American Street has become a food distribution center, not in name, but in reality.

Residents and staff, together with organizations and committed businesses, have worked long and hard to improve the neighborhood economy. In constant battle against both the ever-present cynics and pervasive distress, the Empowerment Zone is holding its own. Government and business interests must continue to support the efforts of community-based representatives in striving for sustainable community development and economic growth.

It is too early to claim unqualified success for the Philadelphia Zone. Our momentum, however, indicates that the improvements so far will be multiplied many times over in the years to come for the benefit of small businesses, residents and the city. This momentum is directly attributable to designation in 1994 as a federal Empowerment Zone.

Mayor Rendell commends the Administration and Congress for recognizing the positive influences that the Empowerment Zone program has had in communities around the country and for making continuous improvements that strengthen the program.

We thank you for this opportunity to submit testimony before the Subcommittee on Oversight for the House Ways and Means Committee.

October 28, 1997

Chairman JOHNSON of Connecticut. Thank you. I appreciate the testimony of the panel. It has been very helpful, and I would also say very impressive.

Ms. Blaustein, it was very useful to hear your experience in applying this concept regionally. In so many parts of the country, regional cooperation has been difficult to achieve, but is essential to solving the problems of the major cities. That was extremely helpful to me.

It has also been impressive—would you all agree, a number of you mentioned, that there hasn't been that much loaning; that the tax incentives, with the exception of you, Mr. Gundersen, the tax incentives don't seem to be that powerful, the grants seem to be very powerful, and you'd like it if the wage subsidies were better.

Mr. SCHMOKE. That is a good summary.

Chairman JOHNSON of Connecticut. Why are the wage subsidies not working? I know some of you are in enterprise zones or enterprise communities. At least under the new law they won't have access to as much wage subsidy. I think I am recollecting that properly. But the Work Opportunities Tax Credit was supposed to be also a complementary proposal. I don't hear much enthusiasm for either of the wage subsidy provisions.

Mr. FRAIM. Madam Chairman, we think that the tax credits are an excellent idea. It has been in the application that we seem to have had some problems, that paperwork seems to be cumbersome. There is not a good understanding among the local business community of what is being asked of them. The short-term application of some of these credits, the year-to-year types of things, don't really place a lot of confidence in the program, to be honest with you.

It might be well—we can produce several businessmen from the city, small and large companies, who might be able to provide some information that would help streamline the application process so it can be of greater benefit.

But we do find that the grants are a great help to us. They are very flexible, allow us to do more than just move people from welfare to work, but also the unemployed, the underemployed, it is helping in a lot of ways.

Chairman JOHNSON of Connecticut. Mr. Gundersen, you mention the need for more technical assistance in part to help businesses understand the tax credits and what they can do. You know, would you say that the majority of the 32 million in investment that you have leveraged, was a lot of that as a result of the tax benefits available?

Mr. GUNDERSEN. I think a portion of that—of those businesses—may be taking advantage of the tax credits. I don't know the exact number. The 32 million that I reference refers to public and private lending within the zone. What we have noticed is that in this year alone we have seen 33 transactions, and that is up from 5 of last year. I think that is a pent-up demand for the capital, and particularly the coming on-line of our community-based lending institutions that are controlled by the community, which is to say they have representatives on their board from the community, and they are making the loans that the banks had not made in the past.

I should mention that community lending institutions were capitalized with the title 20 funds.

Chairman JOHNSON of Connecticut. Well, that is interesting with the title 20 funds.

So the bonding mechanism hasn't been very useful to you, but you have been able to meet the loan needs through using the Community Service Block Grant dollars that way?

Mr. GUNDERSEN. That is right. Of the $79 million that Philadelphia received, about $24 million has been directed to the establishment of three separate lending institutions, one for each of the three distinct areas within the empowerment zone. They are set up as 501(c)(3) nonprofit organizations with their own board and with their own loan committee. And each of those does have community-based representation.

They are making loans at a very small level, microloans, from $500 to $1,500. They are making small business loans up to $500,000 that many of the commercial lenders may have been reluctant to make. And they also have the capacity to become equity partners in business deals if we have a business—that might be interested in pursuing that.

Chairman JOHNSON of Connecticut. That is very interesting and very helpful.

Senator Posthumus, what is happening to the local tax revenues as a consequence of the State government relieving people of local property taxes?

Mr. POSTHUMUS. What we have done is, when we created the act, which was a legislated act, we said we were only going to create 11 zones. We have got six urban zones, three rural and two enclosed military installations.

We gave communities the option—no community has to be part of a renaissance zone. Every community in this State was given the option of applying to be part of the renaissance zone so that there would be a partnership between the State and local government. And there are—I think there were 21 communities that applied, of which we got 11. And they had a very short time period because we wanted to put it in place very quickly.

When they did that, they knew that, in the short term in the zone, and they got to pick the zone. Each community picked the zone. The State didn't pick it. The community picked it and recommended it. They knew that in that zone they would forgo all taxes, local taxes, and the State would forgo all State taxes. And that is part of the agreement in order to rebuild the community.

We just felt that—one of the problems you heard earlier, that tax credits were difficult and weren't having as much of an impact, the problem is for an employer or job provider, the cost for locating or expanding in a blighted urban area is significantly higher, and so we felt we had to do something very bold in order to reduce that cost. And that is why we said, we are going to do away with all of your taxes for the next 15 years or up to 15 years. And we are finding a much quicker response to that, as I said, in just in the last 10 months.

I visited an old foundry that had been closed down for 10 years in Grand Rapids. Nobody was doing anything with it. As soon as the renaissance zone came about, developers went in there, took the old foundry and are recreating it into a building that will be partially for offices, partly for small business start-ups.

So I think it is critical, if we are going to do something to blighted areas, we have to create some new ideas. I think the empowerment zones are working, but I think we need to even go beyond that.

Chairman JOHNSON of Connecticut. I think your idea is a very exciting one and a very dramatic one. The goal is to reduce the cost of doing business to encourage people to come in and create businesses and create jobs.

Mr. POSTHUMUS. And homeowners as well. Remember, this is also for the residents as well as the business. This is for everybody in the zone.

Chairman JOHNSON of Connecticut. That is right. Nobody pays any taxes, the people who live there and the people who do business there. It is really quite a dramatic concept. And it is interesting that you have gotten so much activity in such a short time. But just to make it clear, not all of Grand Rapids and not all of Detroit are in these renaissance areas. They choose a smaller area. Do you limit the amount they can choose?

Mr. POSTHUMUS. We said that they can take up to 5,000 acres. And initially, the idea was to create one zone in every community. The cities came back to us and said, wait a minute, we think that just by putting it all in one area, we are going to create some problems, because within those areas, we have some that are doing pretty well. Why should we be helping those areas that are doing fairly well?

So we gave them the ability to divide it up into areas that there is still—I think they can't be any smaller than 1/250th of the city's geographical area. But the city of Detroit, for example, will have—has five separate zones equaling about 1,300 acres. I think Lansing has two separate zones. So it is each up to—each community can then kind of make it fit their needs.

Chairman JOHNSON of Connecticut. Is there any resentment by other homeowners in these cities of the people who are homeowners in the zones and don't have to pay any taxes, and, likewise, the business down the street who was carved out?

Mr. POSTHUMUS. Certainly there is some of that, no question. And somebody is going to say, why do they get the break, and we don't? But, in fact, we believe that it is a risk worth taking in order to redevelop our blighted areas. You have got even some are arguing, if they are not even in a city that has a zone, why should the business that is located in this blighted area get the break?

But, in effect, they have had to pay a larger cost for locating there. P.B. Gast & Company in Grand Rapids has had to pay a higher cost for staying in the city of Grand Rapids than a company that was willing or went out to the suburbs and located in the greenbelt. So all those factors are—we just took them into account and said it is worth it to redevelop those blighted areas of the State.

Chairman JOHNSON of Connecticut. That is very interesting.

Mr. Coyne.

Mr. COYNE. Thank you, Madam Chairwoman.

Ms. Blaustein, what are the biggest obstacles that you run into relative to redeveloping brownfields, and what do you think the

Federal Government could do to make it easier to overcome those obstacles?

Ms. BLAUSTEIN. It varies from area to area. There are certainly a large number of variables in each case. Some sites have no clean-up at all yet, and they need help from the ground up. And other areas are well on their way to being cleaned up, but need help in marketing these areas and finding businesses that are interested in developing there.

There is a lot of education that has to happen, both in marketing these sites and in bringing the community members together to understand what the value of these sites are.

Certainly, we have had some help in the city of Pittsburgh from the Federal Government in terms of EPA funds to redevelop some of our sites. The Mon (Monon GAHELA) Valley sites are far behind. They have no paid staff people to manage this redevelopment. They need capacity from every level in order to market these sites, clean them up, and find developers.

But we are competing against each other. And there needs to be a concerted effort that is now under way to market these sites and clean them up jointly. We have learned things in the city of Pittsburgh that can be of use to the Mon Valley communities in terms of dealing with some of the contaminants there.

If we could share our resources of knowledge and market these regionally, rather than individually, we have a much greater potential of competing with the suburban sites that are green and ready to go and that attract a lot of businesses more quickly. But we need to educate ourselves and the public at large and the business community about what the advantages are.

Mr. COYNE. I assume from reading your testimony that the benchmarks that you are using to measure the progress on the enterprise zone project are employment, investment, household income, home ownership, and access to capital; is that correct?

Ms. BLAUSTEIN. Uh-huh.

Mr. COYNE. Have you compared your progress to the benchmarks as of yet?

Ms. BLAUSTEIN. Yes, we have. We have finished a performance review in July that measured our performance based on what we had set out to do. We have made a tremendous amount of accomplishment in terms of housing. That was our biggest commitment.

We have begun the change from concentrated public housing to rebuilding those sites and bringing in not just subsidized housing, but a range of rental and home ownership. We had an opportunity to show the Manchester area off to HUD when they were here about a month ago to see how these homes had been redeveloped and the increased pride of those communities in having real homes with real quality as their basis.

The other area that a tremendous amount of effort has gone into but was a very great challenge was the development of family support centers. We are now under way with developing the first one that will bring together agencies that had been scattered throughout the area of McKeesport into one central location. People can come there and find all the services they need under one roof, as well as with Internet access connecting to those other service agencies that may not be located right in that location. That took a long time to get under way, but now they have started. And our next set of reviews will show what accomplishments that has made and will be a model we can use in other areas of the city as well.

Ms. GILLOT. If I can jump in here, one of the things that is not reflected in the performance review that I think should be, especially in our area, is the amount of effort and time it takes for the process, for the capacity-building process, and that is not reflected in an evaluation. You know, and because of the fragmentation in our enterprise community and the turnover in the county government after 60 years, there was a major turnover right in the middle of our first 3 years of designation, we had to bring all kinds of players up to speed, and that process, and that catharsis, is so important, and it is not reflected anywhere in the performance review.

We have talked to HUD about this. We are hoping that that is at least incorporated if not in this current designation, in the second round. But that partnership is what is going to expand into other opportunities, like the brownfields and other opportunities that we have seen in our area, and we need to evaluate that, and that is not reflected. But that is one of our main accomplishments, also, is the partnership that has been formed among these municipalities that may have—that have never worked together before.

Mr. COYNE. The Family Support Services Program, that was initiated by the prior administration at the county level?

Ms. BLAUSTEIN. Uh-huh.

Mr. COYNE. And at that time, were any of those facilities in the city?

Ms. BLAUSTEIN. No. None existed the way they do now, no.

Mr. COYNE. But now we will be able to have those in the city with this——

Ms. BLAUSTEIN. Yes.

Mr. COYNE. Very good.

What is the biggest obstacles that you run into in implementing the enterprise program?

Ms. BLAUSTEIN. I think, as Beverly said, it was getting everybody at one table. There has been a lot of distrust from one area to the other, and to deal with this many municipalities who had preconceived notions about what their role was going to be and how they would work with each other and with the city, it took a long time to develop a level of trust that we have finally developed.

I mean, there are people talking to each other who may have only lived 10 miles apart but have never spoken about these common interests before. We do share a lot of common problems. And we have to work on them together, because there is no way that any of these municipalities can deal with them individually. We simply don't have the resources to do it. The only way to be successful is to do it jointly.

Mr. COYNE. Thank you very much.

Chairman JOHNSON of Connecticut. I am pleased to welcome Congressman Cardin. And thank you. It is nice that you have been able to join us.

Mr. CARDIN. Well, Chairman Johnson, I really want to first applaud you for holding these hearings. This has been very helpful to us to see not only how the Federal empowerment zone legislation is operating, but also to see what other local governments are doing in an effort to encourage economic development in difficult areas.

And I want to thank Mr. Coyne for welcoming my mayor here at the beginning of this panel.

Kurt, I am sorry I was not here to hear your testimony, but I have read it, and I certainly concur in your comments.

Let me just make, if I might, just one quick observation; and that is, I think this program in Baltimore has worked better than Congress had anticipated.

I was present with Mayor Schmoke at community meetings in the planning stages. And to see that, how local communities have organized to have a meaningful role in their community and using the empowerment zone legislation, has been very, very encouraging. And in Baltimore we have not only used the local community, we have also energized our private sector under the umbrella of the Federal program to accomplish the goals I think all of us had hoped would be done under the empowerment zone legislation.

Mr. Mayor, I have read your testimony. I concur in it. But I just really want to underscore the point about improving the quality of life, because I have seen the communities come back to life and crime rates drop. That is very noticeable to the people who live in those communities. I have seen home ownership grow one building at a time. As we increase home ownership in these areas, we also improve the public schools.

So I just really want to applaud you in the effort you have made in Baltimore using this program. I think it has been a model program. And congratulations. Anything we can do to help, please let us know.

Mr. SCHMOKE. Thank you, Congressman.

I forgot to mention with me is Diane Bell, who is the president of the Empower Baltimore Management Corporation, the nonprofit that operates our empowerment zone, and it has been her leadership in working with the various elements of the community that has allowed us to move forward. And I did want to acknowledge her. And thank you very much for your very strong support throughout this entire endeavor.

Chairman JOHNSON of Connecticut. Thank you.

One of the problems with hearing everybody individually and then going to questioning is that you forget the questions you were going to ask one person by the time you get to the end.

But I did want to ask you, in terms of the curriculum project, did that just come out of the larger planning process, or was some of the Community Services Block Grant money used to accomplish that? Were there things that were done as a result of the enterprise zone effort that actually didn't involve using incentives or grant money, but just were spinoffs of the planning process, or did they in some way all include usage of grant monies?

Mr. SCHMOKE. There was a mixture. Some were spinoffs. Others, however, needed the block grant in order to succeed. The focus on the curriculum was something that occurred during the course of the planning process. That was something that the communities agreed to and all of us bought into that plan and felt that it was— it would be essential for certain of those neighborhoods to have that increase. The implementation wouldn't have occurred, however, without the use of a grant.

Chairman JOHNSON of Connecticut. I would be interested to have any of you who care to undertake it to list out for us how other Federal grants also fed into this planning process; once you got the plan, that that directed how you used, perhaps, some of your education dollars, perhaps some of your job training dollars, perhaps other Federal grants, because we need to sort of see how does the enterprise zone planning process affect the implementation of other Federal programs and the usage of other public dollars.

Mr. SCHMOKE. Madam Chair, we tried throughout the process, and the board focuses on this, to try not to duplicate existing programs, but to make sure that things are working in a complementary fashion so that we do get the benefits from other programs, not only the Federal level, but the State and the private sector level.

Chairman JOHNSON of Connecticut. So did you then use the block grant money available under the enterprise zone legislation to establish your six community-based village centers, but then they just made more efficient use of all of the various foster care dollars, food stamp monies, and all those other things?

Mr. SCHMOKE. The village centers have been primarily information and referral. They were not set up to be the service provider. They were to make sure that the community groups had access and individuals had access to all these other programs.

Chairman JOHNSON of Connecticut. Thank you. Thank you very much for your testimony. I appreciate the panel's thoughtfulness and the complete record that you created in your written statements. And thank you for your summaries and this discussion. Thank you.

And I would like to call our last panel.

Miles Friedman, the Executive Director of the National Association of State Development Agencies; Terry Van Allen, Director of Research Initiatives at the University of Houston; Richard Cowden, Executive Director of the American Association of Enterprise Zones; David Caprara, Director of Policy for the National Center for Neighborhood Enterprise; and Diane Lupke from Indianapolis on behalf of the National Council of Urban Economic Development.

Chairman JOHNSON of Connecticut. Mr. Miles Friedman.

STATEMENT OF MILES FRIEDMAN, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF STATE DEVELOPMENT AGENCIES

Mr. FRIEDMAN. Madam Chairman and Members of the Committee, thank you very much for having me here today. I am Miles Friedman, Executive Director of the National Association of State Development Agencies. We are the umbrella organization nationally for State economic development agencies, and we coordinate and provide support services to those who administer State enterprise zone programs and to those who work with the Federal Empowerment Zone/Enterprise Community Program.

I am particularly pleased for the States to have the opportunity to provide some input today and to be recognized as important partners in the process. Thank you.

We want to express our support for the Federal Empowerment Zone/Enterprise Community Program and for the designation of additional zones under a second round.

I do have a number of points I would like to make in terms of clarifying the State role and how we see the States being most effectively utilized in this program. I think you could classify these under two general headings. One is the relationship of the program to States and how they do] business, and the second is to the potential role that States can play in the program and have played in the program.

I think, in looking at enterprise zones, the whole enterprise zone concept, whether it be the current Federal program or the programs that have been in place in 42 States now for some 16 or 17 years, we look at the issue of targeting as being critical. For States, this was a new way of doing business by and large.

And I know that there is a lot said in Washington and other places about how little attention States pay to targeting to communities, especially to distressed communities and distressed areas. And, in fact, what has happened is virtually a revolution in the way States do business over the last 17 years in that States largely under the rubric of enterprise zones have begun targeting resources not only in direct support of State enterprise zone programs and now in support of the Federal Empowerment Zone and Enterprise Community Program, but, in fact, States are targeting more and more of their other programs in areas like job training, finance, lessening of taxes and regulations on businesses, training for entrepreneurs, assistance with insurance issues, and other ways that States can become actively involved in helping largely the smaller communities and the smaller businesses that are trying to grow, that are struggling to make it in the world. States are now targeting resources more than ever before to these businesses and these individuals in these communities. That is a very important issue for us because the States are now spending several billion dollars a year on economic development.

Secondly, as much as we appreciate and applaud the fact that States are recognized as partners, we also believe that States could play an even more active role in supporting the program, not so much from an administrative point of view. You will find that the State economic development agencies are less anxious to be in charge, less anxious to administer, less anxious for control, and more anxious to play a technical support role. They would like to be more involved in the application and designation process. They would like to be more involved in providing technical assistance. They would like to be more involved in trying to help develop the strategies that are being used to support the economic recovery in these distressed areas.

The States can be very good partners in these communities, and it is in that role, in the technical role and the substantive participation in the program, that we think States could be recognized and allowed to play an even more active role.

We think the current Federal program is a very good start. As I say, we support designation of a second round. We also believe that, in at least one area, the expansion of the State role on the substantive side and, secondly, in allowing more time for strategy development, because if we have learned nothing else from the State experience, it is that enterprise zones must be seen as part of a larger concept, part of an overall economic development program.

On their own, they are not the be-all and the end-all for economic development, nor should they claim to be. But States who last year put about $2 billion into their participation in the program feel that the communities, especially the smaller communities, need time to truly develop the strategies that they are going to use so that they can most effectively utilize the dollars that are being directed their way.

I have many other things I could say, but I want to conclude, if I could, by talking about the real impact on real people for just a moment.

We convene the State enterprise zone administrators and those who participate in the Federal program once a year in February. And last February, here in Washington, we had many of those people here for a conference, and we gave out some awards. And one of the most exciting things was to see the mayor of a small community in Michigan talk about the enormous decrease in the unemployment rate in her community and talk about how much it meant to have the Federal Government provide some recognition, and not only tools, but recognition, of what was happening.

And to see a small town in Louisiana, Macon Ridge, actually send about 20 people here to Washington to accept the award and talk about the community involvement in Macon Ridge and how much it meant to them to have the State and Federal Government recognize what they did, and perhaps most instructive was that, in both cases, with the communities who were there to accept the awards were people from their State economic development agencies.

So I thank you for this opportunity. I hope it has been helpful. There is a more complete statement that has been supplied for the staff. And, again, I will be happy to answer any questions.

[The prepared statement follows:]

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TESTIMONY OF

MILES FRIEDMAN

EXECUTIVE DIRECTOR

NATIONAL ASSOCIATION OF STATE DEVELOPMENT AGENCIES

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

HOUSE COMMITTEE ON WAYS AND MEANS

OCTOBER 28, 1997

Testimony of Miles Friedman, Executive Director, National Association of State Development Agencies

Performance of the Empowerment Zone/Enterprise Community (EZ/EC) Program

On behalf of the National Association of State Development Agencies (NASDA), I would like to thank you for inviting me to address the Subcommittee on Oversight of the U.S. House Ways and Means Committee. I am Miles Friedman, Executive Director of NASDA which is the umbrella organization for state economic development agencies. NASDA would like to express our support for the Federal Empowerment Zone/Enterprise Community Program and the designation of additional zones under a second round.

While we fully support the EZ/EC Program and believe that it has produced measurable results for urban and rural communities throughout the country, we have some concerns about the state role in the EZ/EC program. It is evident across the U.S. that collaboration and coordination is essential in community and economic development, and this has proven true with the more successful EZ/ECs. As we continue to survey the involvement of state program assistance, it is easy to substantiate the importance of a definitive and proactive state role.

My purpose today is to outline some of the ways that states have played an important role in developing and supporting targeted development programs for distressed areas and to summarize recommendations for an expanded Federal Empowerment Zone/Enterprise Community program. NASDA believes that states' experiences in operating state enterprise zone programs for over ten years and their participation in the Federal EZ/EC program provide lessons for enhancing any future initiative to add a second round of EZ/EC designations. These include:

- Articulate the state role in a way that recognizes the role of states as partners rather than administrators and encourages meaningful participation in the strategic planning and implementation process.
- Allow more time and flexibility in developing the strategic plan required as an element of the application to encourage wider participation in the process; develop application tiers to allow a staged approach to the application process; and provide technical assistance to communities throughout the process.
- Allow existing Enterprise Communities and champion communities which have demonstrated substantial progress in achieving their benchmarks to seek additional funding in a second round.

State government oversight on coordination of resources, monitoring of political neutrality and long range strategic linkages of EZ/EC activities with other economic development programs of the state are some of the important potential involvements of the state government for existing as well as new program grants. Currently states are not systematically informed of EZ/EC actions or reports. NASDA hopes that Congress will seek a clearer, more constructive role for the states in the EZ/EC program, especially economic development agencies, so that these distressed areas receive the most complete and unencumbered help in turning around their local economies through improved infrastructure, incentives for private investment, job training and implementation of strategic plans for targeted areas.

Background

The National Association of State Development Agencies (NASDA) has provided support for the evolution of the enterprise zone concept since the early 1980s. In 1982, NASDA organized an enterprise zone task force to assist state zone managers in the implementation of their programs. For 50 years, NASDA has represented the state departments of economic development, providing a wide variety of innovative information resources and technical assistance to its membership, operating as the resource on state economic development for community, Federal and private-sector economic development organizations. In February 1997, a joint task force of members from NASDA and the American Association of Enterprise Zones (AAEZ) was formed to develop recommendations to Congress and the Community Empowerment Board for a proposed second round of EZ/EC designations. We have provided a summary of those recommendations in this testimony.

Since the first proposal for Federal enterprise zone legislation was presented in 1980, enterprise zones have evolved into a strategy for improving the condition of distressed neighborhoods. The earliest proposals for a Federal initiative, put forth by Jack Kemp, focused on tax relief as an incentive for investment in designated communities. In anticipation of a Federal enterprise zone program, many states began passing their own programs beginning in the early 1980s, designed in a similar fashion to the initial Federal proposals. The strategies tended to focus on tax incentives as a tool for attracting business investment. Enterprise zones also provided a way for states to target incentives to areas defined by their economic need. Most states developed designation criteria rather than awarding competitive designations. There are currently 37 active state zone programs, the newest being in Iowa. The experiments and lessons learned from states and localities working together helped to shape the debate at the Federal level. The greatest lesson from these targeted investment programs has been that the enterprise zone concept is most effective within the context of a comprehensive economic development program.

State Enterprise Zone Programs
State enterprise zone programs vary widely in zone designations and incentives offered. Most began by offering tax incentives targeted to encouraging companies to invest in plants and equipment. Recent zone programs include employment tax credits and grants to encourage job creation and the targeting of employment to zone residents. State zones are also beginning to provide direct incentives to zone communities by offering business loans with preferential terms or rates, grants for infrastructure improvements, and child care or transportation assistance to the employees of zone-based businesses. Partnerships between the localities and the state are a key element in the success of these programs.

In Pennsylvania, all of the 23 applicants for Federal EZ/EC status overlaid their targeted investment areas on existing state-designated enterprise zones. The Commonwealth's zone program has traditionally focused on business revitalization as a way to renew distressed communities. The program helps communities regrow their tax base and generate and retain jobs. Since 1983 Pennsylvania has invested $87 million in grants to support projects in its 51 zones. That investment has resulted in 1,830 new businesses opening in the zones, 25,720 new jobs created, and 40,980 jobs retained. Other states such as Indiana and New Jersey have developed innovative programs that have been effective in assisting companies to create and retain jobs in urban areas. NASDA presented its State Enterprise Zone Program Award for 1997 to the State of New Jersey for its Urban Enterprise Zone program. Governor Whitman has demonstrated strong support of the urban enterprise program and accepted the NASDA award at a ceremony in Union City in February 1997.

While not a panacea for economically distressed areas, enterprise zones can be an important tool for changing attitudes about development opportunities in these areas. In many cases, the availability of incentives and supplementary services for these targeted areas have caused businesses to look at investing in communities they would not have considered if the incentives were not available. Through their involvement in enterprise zone programs, states have begun to think more broadly and pro-actively about economic development in distressed areas. Over time, states have integrated their enterprise zone initiatives into their overall redevelopment policies, with zone incentives and programs as a major element in the states' toolkit for economic development in distressed urban and rural areas. The Federal program has given further encouragement to states to become engaged in the revitalization of distressed communities. A NASDA survey of state economic development directors found that 90 percent of them view enterprise zones as an important and useful economic development tool.

Federal EZ/EC Program
The Federal zone program of 1993 built upon the lessons of the 1980s and the state zone programs by providing a package of tax incentives and additional resources to be used based on local strategic planning efforts. The EZ/EC program combined legislatively authorized funding and tax incentives with additional resources from existing programs. Because the challenges

being addressed are multi-dimensional, the program marshals the resources of numerous agencies and cross-cutting functions.

One of its most important achievements has been creating partnerships among a variety of community stakeholders around the issue of revitalization. As the General Accounting Office noted in its evaluation of Urban Empowerment Zones (1996) the result has been increased coordination across economic and human development activities, as well as among the public, private and nonprofit sectors. The partnerships created by neighborhood leaders, the private sector, city and state governments have served to expand the availability of funds and create a basis for sustainable results.

Lessons Learned

The communities with EZ/EC designation that have been successful have a clearly defined strategy that addresses community issues and rely on partnerships developed through the strategic planning process. NASDA has seen that the successful programs are those that have an effective implementation plan and a process for carrying out programs and providing services. Many of the community strategies are focused on generating new jobs by creating an environment that is supportive of entrepreneurship, encouraging the establishment and growth of value-added industries, and improving infrastructure to support business and industrial growth. Smaller businesses play an important role in the economy of the communities, and entrepreneurship is a key strategy for them in providing opportunity for residents where job opportunities are limited.

Workforce development and education are the biggest priority for many of the communities. They have found that the most difficult challenge for zone businesses is in hiring qualified residents. Often businesses are concerned about the lack of basic skills along with life skills required to maintain employment. Many programs include an assessment of the skills needed by employers and basic skills training in reading, writing, and math. Others promote mentoring to provide ongoing counseling for at-risk youth or adults to teach communications skills, conflict resolution, career planning and life skills. Beyond training and education, zone programs are involved in identifying potential workers from their zone and linking them with employers through referral services. Several zone programs have set up one-stop job resource centers for zone residents to learn about job opportunities and access training programs.

One measure of success is the number of new businesses recruited to the zone through marketing zone locations and benefits. Often, this success is produced by cooperation among partners to identify potential new businesses and then work together to address the needs of that business in locating to the zone. In some cases, a new business may locate outside the boundaries of a designated zone, but the zone partners are involved in providing assistance so that zone residents are considered for jobs.

The successful programs have demonstrated resourcefulness in addressing community challenges. NASDA found that communities such as the Macon Ridge Economic Development District in Louisiana have demonstrated remarkable resourcefulness in providing small business incubator space and business resource specialists to counsel entrepreneurs throughout the region. Macon Ridge also helped ensure the success of its job training programs by purchasing a van to transport adults to vocational training classes in areas lacking public transportation. Several communities have focused on public safety issues and helped hire and train police officers through enterprise community funds. Communities without such resources have focused on involving residents in volunteer efforts to clean up neighborhoods and address problems.

Participation of businesses in the programs and new partnerships with the private sector are an important part of successful zone programs. In New Orleans, the enterprise community has established a partnership with a developer to prepare zone residents for jobs in a new theme park/entertainment center. Chambers of commerce have been active in zone programs, providing marketing assistance and communications. Utilities, banks, developers and real estate firms have been important partners as well. Collaboration with public sector agencies and nonprofit organizations also has been an important factor in success, especially in the areas of education and community services. Zone programs have partnered with school districts and state employment agencies to expand JTPA programs, create summer jobs for youth, and establish one-stop career development centers.

Another important element of successful programs is a commitment to helping zone-based businesses or employers of zone residents improve their competitive advantage in a global marketplace. Zone programs must be forward-thinking and devise long-term strategies that provide opportunities for the future. For example, the Macon Ridge plan includes a technology partnership with NASA to help entrepreneurs develop new products and build capacity to assist in patent research. Although not a designated EZ/EC, the Hancock County, Tennessee, community partnership created an Access Network to provide Internet access to residents and is pursuing interactive learning, business and medical applications of telecommunications.

All of the successful programs demonstrate innovation in addressing difficult challenges. They leverage state funds to match Federal and private funds and work to create self-sustaining programs such as revolving loan funds and micro loan funds. There is also a strong focus on the empowerment of citizens to take steps toward self-sufficiency. Many rural enterprise communities have made leadership development a major component of their strategic plans to assure ongoing support for the community's efforts. For instance, in the East Prairie, Missouri, the Lion's Club had disbanded prior to the EC application process, but now meets regularly.

Most importantly, these initiatives have generated wide-ranging support for community revitalization efforts across racial, social, geographical and jurisdictional boundaries. Civic groups have formed committees to work on zone programs and all segments of the community are involved in activities large and small. Each of these small steps are seen as part of a larger community effort and residents recognize that they are part of that effort. By developing a community-based strategic plan, and focusing on its implementation, communities are finding ways to collaborate on long-term goals rather than being divided over short-term issues.

The State Role in the Federal EZ/EC Program

In requesting applications from communities, the Federal program identified states as important partners in the process. While some states were actively involved in the planning process, many state officials were asked merely to sign off on local plans. In some cases, states are able to commit resources to match or complement Federal benefits and thereby strengthen existing or proposed designations. On other issues, states may be the best source of technical support and coordination, although they may need some dedicated financial assistance to provide additional support.

The Commonwealth of Pennsylvania assisted eligible applicants by assisting the communities develop their vision, their strategic plan and benchmarking process, providing technical assistance, assistance in obtaining preference consideration for both state and federal programs and by streamlining the state level contracting, invoicing, and benchmarking approval process. Governor Tom Ridge created a state team comprised of representatives of eight departments and agencies. This dedicated team facilitates applications within a particular department or agency and coordinates the expeditious handling of requests for information, waivers, and applications.

In general, the states have responded positively to the EZ/EC program. NASDA identified at least $2 billion that states committed to the initiative in 1994. The economic development commitment (approximately $250 million) represents 11 percent of the total appropriations made by all 50 states for economic development activities in 1994. Unfortunately, we cannot say how much of these resources were actually distributed. The Federal implementing agencies could have made and should make engaging states a high priority.

However, the anecdotal evidence suggests that at least several states have worked hard to help make the program work. According to NASDA, New York committed funds to match the Federal Title XX funds for its Empowerment Zone and four Enterprise Communities. Other states such as Texas granted automatic state zone designation to federally-designated zones, providing additional state tax incentives within the zones. In the East Prairie Enterprise Community in Missouri, the Missouri Department of Economic Development continues to work closely with the community as it progresses toward achieving the benchmarks in its strategic plan. This includes $602,000 in state funds to establish a site for delivery of preventative and primary health care needs in the small rural community, as well as economic development, family development and education funding. In Louisiana, the Macon Ridge Enterprise Community is piloting the concept of welfare-to-work in the Louisiana Delta in partnership with the state. The EC is implementing job training, job creation and minority entrepreneurship programs to help end the cycle of welfare in three parishes.

In addition, states have played a role in assisting communities that did not receive Federal EZ/EC designation. A number of these "champion" communities have continued to work toward implementation of their strategic plans, and in some cases, have received assistance from their state through state enterprise zone designation or other forms of assistance. Sacramento, California was able to recruit a major employer to a closed Army Depot in part by obtaining state enterprise zone designation for the area occupied by the Army Depot. The state of California created special legislation which converted the Sacramento Army Depot into an enterprise zone at the request of the city and Packard Bell. As a result of intensive outreach and training efforts by the city and state, Packard Bell has hired over 500 low-income persons from high unemployment areas for its assembly plant. Over 700 people previously on public assistance gained full time employment and another 1,000 on welfare were hired for temporary work.

In roughly half of the states, economic development or commerce departments were designated as the lead agency for the EZ/EC initiative. Other lead state agencies include social services, housing, community affairs, public corporations or the governor's office. However, state agencies have not been as actively engaged in the Federal EZ/EC program as they could be. The reason is that most felt that they were left out of the process. Many of them were asked to provide funding, but were not given an opportunity to make substantive contributions to the program's design or to the shape of the community strategies. Many states were given only an administrative function as "pass through" for Federal dollars. As a result, several development agencies eventually turned their role over to the agencies that traditionally administer social service block grants. This puts the states in a passive role.

In an effort to take a more active role, Pennsylvania created a single point of contact at the state to facilitate the programmatic requirements as well as oversee the disbursement of the Title XX funds. They did this to address the uncertainties about how the Federal program would evolve. This also helped to reduce the time required to process Title XX fund requests from three to six weeks to a mere five working days.

Recommendations for Second Round of EZ/EC Designations

This summer, NASDA and AAEZ conducted a survey of enterprise zone managers to gauge state and local opinion on a number of key EZ/EC issues. The survey results guided the development of recommendations to Congress and the Community Empowerment Board for enhancing future initiatives for additional EZ/EC designations. The recommendations focused on the eligibility criteria, application requirements, preferences for new EZ/EC designations, the state role in the EZ/EC process, and Federal EZ/EC tax incentives.

1. EZ/EC Eligibility Criteria

Congress should retain existing eligibility criteria for the second round, although eligibility criteria might be revised to reflect state-specific demographics. The Community Empowerment Board, working with its member agencies (particularly HUD and USDA) should develop a standardized process for responding to waivers. This process should include a specific time frame and a communication strategy to share information about the justification for approving and disapproving waivers.

2. EZ/EC Application Requirements

Congress and the Community Empowerment Board should allow more time and flexibility in developing the strategic plan required as an element of the application. The application process should be revised to reflect the different capacity of communities to develop a bottom-up strategic plan that would encourage economic revitalization and self-sufficiency. Because communities need to know what should be included in the plan and they need to understand the evaluation criteria being used, most communities will wait until Federal regulations are issued before beginning the planning process required for the application. A longer time frame will encourage communities to involve the variety of stakeholders and to allow states, localities, and the private sector more time to allocate funding through their normal budgeting cycles for specific EZ/EC projects being proposed.

The application process could have several stages designed to "weed out" those who are not serious. For instance, a first stage might require the potential applicant to identify all the key stakeholders participating in the process (including obtaining letters of support). A second stage would then identify planning activities in which these individuals have participated and a set of potential project activities. The third stage might involve a budget and time line being allocated to each task. A fourth stage might require an identification of funding sources for each of the activities. A fifth stage might focus on what additional activities (or expansions of existing activities) might be undertaken with Federal funding. This fifth stage would be the actual beginning of competition for Federal dollars, some of which are in the EZ/EC program and others of which might not be. In some cases, the Federal agencies might be able to find funding outside the narrowly defined EZ/EC funding while the EZ/EC funding might be necessary for some activities. At the sixth and final stage, communities would actually be competing for EZ/EC designation and the limited Federal dollars associated with that designation. At each stage, one might expect that some communities would "drop out" of the competition for limited Federal EZ/EC dollars, but not necessarily drop out of the program.

Such a process would help expand the program by leveraging state, local, and private resources for these communities first and save Federal resources to fund innovative ideas or to support programs that have true local commitments. It also could help expand the reach of the EZ/EC program to communities that do not ultimately receive designation by funneling funding proposals developed during the fifth stage of the application process.

3. Preferences for Making New EZ/EC Designations

Congress should allow existing EZ/ECs which have demonstrated substantial progress in implementing their benchmarks to seek additional funding in a second round. In addition, they should be allowed to apply for designation under a second round in order to obtain any new Federal tax benefits. Likewise, "champion" communities should also be encouraged to apply for second round, but their consideration should also be based, in large part, on how well they have performed in implementing their strategy with limited or no Federal resources.

State designated enterprise zones should also be given preference points in making second round EZ/EC designations. Since these areas have already been recognized by the states as areas needing special attention and there has been a history of state, local and private sector involvement, these areas should be given continued encouragement to develop solutions to foster economic growth and self-sufficiency.

4. State Role in the EZ/EC Process

Congress and the Community Empowerment Board should clearly define the states' role in the EZ/EC program (with input from the states) to diminish any conflicts between Federal, state and local service delivery organizations.

The state role has not been very well articulated. Local, state, and Federal representatives each have separate, and often conflicting, interpretations of state financial and/or program requirements. The impression that many state program managers have is that states were asked to invest in the Federal program, but then were not asked to provide meaningful programmatic input. This issue could be addressed by asking states to participate as stakeholders, partners, and technical assistance providers, de-emphasizing their role as fiduciaries for Federal funds. Asking state development agencies to participate as one of the numerous stakeholders in the local planning process and ensuring that the local efforts are integrated with overall state goals will move a long way toward reducing the conflict that currently appears to exist between states and their Federal and local partners.

In particular, states have expressed concern that they are responsible for monitoring the expenditure of Title XX funds while having little or no input into the planning or implementation process. With little stake in the process and few opportunities to provide input or assistance, states expressed concern that they have been relegated to acting as administrators of Federal pass-through funding. Not surprisingly, many localities feel that states represent an unnecessary layer of bureaucracy in the EZ/EC program. States surveyed on this issue were very divided on this subject with equal proportions expressing a desire to play a role in financial management while others felt there was no need for financial management. In general, a large majority agreed that Federal funds should flow directly to communities. States need not be entangled in every process as another layer of government. Direct federal-local can work effectively as long as states are involved as partners in the application and strategic planning process.

Although local survey respondents are divided in their opinion about the states' role in financial management, many expressed agreement that Congress should provide states with funding to support and expand their ability to offer technical assistance and programmatic advice to the communities. This could be a valuable investment for the program that would ensure the active financial participation of states in the program and ensure that states appoint someone to advocate on behalf of the EZ/ECs within the state bureaucracy.

5. Federal EZ/EC Tax Incentives

Congress should expand the realm of Federal tax incentives designed to encourage investment in EZ/EC designated areas. A two-thirds majority of state and local survey respondents were interested in the potential for expanding Federal tax incentives to include exempting revenue bonds utilized in EZ/ECs from the state bond cap; increasing the expensing allowance for the purchase and improvement of real property in EZ/ECs; deferring or reducing the capital gains tax when the gain is reinvested in an EZ/EC; offering a commercial revitalization tax credit to investors in EZ/ECs, and subsidizing the clean up of brownfield sites through a pool of funds set-aside for EZ/ECs.

The expansion of Federal tax credits would help to encourage development and investment to occur in EZ/ECs sooner than might otherwise happen. The rationale is that when state and local governments offer local tax or other financial inducements the attractiveness of these incentives is often reduced due to an increase in the investor's Federal tax liability. The combination of state and local incentives with expanded Federal tax incentives should provide a vital inducement for business expansion in EZ/ECs.

Chairman JOHNSON of Connecticut. Thank you very much, Mr. Friedman.

Mr. Van Allen.

STATEMENT OF TERRY VAN ALLEN, PH.D., DIRECTOR OF RESEARCH INITIATIVES, UNIVERSITY OF HOUSTON-CLEAR LAKE, HOUSTON, TX

Mr. VAN ALLEN. Thank you, Chairwoman Johnson, and the committee. I have studied enterprise zones across the Nation, and I have had an opportunity to investigate and see some of the outcomes to some of the questions that you had asked previously, at least in regard to State zones. The Federal zones, of course, have only been around a couple of years.

I just, first of all, wanted to say that I support the program and would very much like to see it improve. I think that the empowerment zone program needs to be greatly improved.

One thing that I wanted to point out is that where zones are successful, existing businesses are able to expand. So many times people concentrate on some big home run where they are going to attract a big business, but in reality it is the small businesses and medium-sized businesses that are expanding. They have community roots, and new startup businesses like them occur in the more successful zone areas across the Nation. So, therefore, I always try to steer people away from the zero sum model where one community loses while another community gains.

I am from Houston, and in Houston we have an enhanced enterprise community. And many of you may know that in Houston, we are the number one city in the Nation for creating businesses, but in our empowerment zone, we have created zero businesses with the incentives, because the incentives are so meager.

Again, we are an enhanced community, which means that we only receive 3 million in social service grants. So we really have not seen the success that we would like to see. And we, of course, will keep working at it.

Speaking of businesses in Houston, for instance, Magic Johnson, who is a basketball legend, has been creating businesses across the Nation, actually movie theaters. He has one in Houston, but, unfortunately, it is not in the zone. And one of the things that I have felt, that with much better incentives, that people like Magic Johnson can give to the communities that they have—that people have come from.

So many people that succeed leave their communities, and I think that one of the things that I am attracted to with enterprise zones is that, if there are incentives, individuals can create jobs and businesses in communities where they feel that they have roots.

Another thing that I have been concerned about with the program is that a former HUD official, I won't name him at the moment, but he said that his concern was this program is turning out to be too much like a—just another grant program and because not enough jobs are being created. Again, the program has only been around a couple of years. And I think that there is success in the program. I do believe that there is modest success. I just would like to see much greater success because the need is so great and so desperate in so many poverty areas.

That is why I have very much promoted and supported the Watts-Talent bill, because the Watts-Talent bill does provide capital gains tax exemptions, just like the new District of Columbia zone, and I feel that that is a key provision, because what I have found in investigating zones across the Nation is that, just looking at it from a job creation perspective—and I realize that there are other aspects to zones than just job creation, but that is my primary focus, is that the amount of incentives are correlated to the amount of jobs that are created in zones. And there doesn't seem to be any way around that.

So that is why I find it to be vital to have stronger incentives, especially in the Watts-Talent bill. The Senate has a companion bill; Joseph Lieberman and Senator Abraham have a companion bill that supports the same type of legislation.

My light is on here. Do I still have a minute?

Chairman JOHNSON of Connecticut. Probably 30 seconds.

Mr. VAN ALLEN. Okay. And you have heard a lot of testimony today. And I think that, for instance, the Michigan zone program is an example of one that is going to have a major effect as far as the State zone program because of their incentives.

And the gentleman here, Congressman Watkins, talked about how in rural areas people leave because, if they get skills, there aren't jobs. And my concern, of course, is to create jobs and to support businesses so that they can succeed in a higher risk environment.

[The prepared statement follows:]

October 28, 1997

Testimony to the U.S. House of Representatives: Ways and Means Subcommittee on Oversight

Hearing on the Performance of the Empowerment Zone/Enterprise Community Program

[Introduction: My name is Dr. Terry Wm. Van Allen, and I am the Director of Research Initiatives at the University of Houston-Clear Lake. I have studied the employment outcomes of Enterprise Zones across the nation, and I have authored a research book, entitled, *The Impact of Enterprise Zones on Employment*. I provide *pro bono* or free consultation services to any public officials interested in developing or improving Enterprise Zones, as I care deeply about helping low-income Americans achieve success in their lives. I know first-hand what it means to have a low income and work hard all day while going to school at night. This is how I earned graduate degrees, including a Ph.D. in Public Policy and Administration.]

The federal Empowerment Zones and Enterprise Communities desperately need capital and investment to increase jobs and businesses. The federal government can best support these low-income areas by excluding or exempting capital gains taxes for all Enterprise Zone areas, as has been provided for the new Washington, D. C. Enterprise Zone. Capital gains tax exemptions are one of the strongest incentives available to the federal government in creating jobs and businesses on a grand scale. I worked with the Senate subcommittee on the compromise bill, and my strong recommendation was to not give up the capital gains tax exemption for the District of Columbia. The bill (H.R. 1031) introduced by Congressmen J.C. Watts R-OK) and Jim Talent (R-MO), and endorsed by Congressman Floyd Flake (D-NY), provides exactly what is needed to help renew poverty areas with capital gains tax reductions and other important incentives. Let me add that Jack Kemp endorses this bill, and the companion bill by Senators Abraham and Lieberman, as well.

The current Empowerment Zone program has some modest incentives, (such as modest amounts of job credits, housing funds, and business loans) which can sometimes be helpful on the margin or when combined with state and local incentives. Yet, the current federal incentives are rather meager in helping to create jobs and businesses on any large scale level. There are isolated cases of success in places like Detroit with investment by the "Big Three" auto makers, and some success in Baltimore and Cleveland, but most of this success can be attributed to strong initiatives in the local communities. However, in Houston, where I live, the Empowerment Zone program has unfortunately been called a disaster by the local newspaper, due to very little Zone action. (In fairness, Houston was given very meager incentives as an Enhanced Enterprise Community.) But, I still have hope that something good, even if modest, can come out of this program as we work to bring about progress in Houston.

At an Empowerment Zone conference earlier this year, Roy Priest, who at the time was a U.S. Department of Housing and Urban Development (HUD) official, stated his primary concern was that the Empowerment Zone program would become "just another grant program," since few jobs were being created in most areas. His concern was very understandable, as for the most part, this is what the Empowerment Program has been, just another grant program when considering the great, great need for community renewal. In fact, applications by cities and counties for Zone designation have characteristics essentially the same as program grant proposals. I support the Empowerment Zone program and every little step of current progress, but I want to make it better, much better. I want to see the U.S. Congress address the needs for capital formation, investment, and economic growth in these low-income areas.

To give an example, let me say that with investment incentives, more people like basketball legend Magic Johnson can invest in low-income communities. As many of you know, Mr. Johnson is an African-American, who has invested in building movie theaters in urban areas across the country in Los Angeles, Atlanta, and Houston. Another analogy would be that when the Soviet Union broke up, many Russian scientists had no jobs and instead they moved to academic universities in the United States and around the world. Russian scientists had skills, but no jobs. Therefore, if there are no opportunities in the blighted areas of America, then low-income youngsters and adults who improve themselves will either stay put and lose hope, or they will move from their communities where they have roots and take their talents elsewhere. (Although, mobility is much more difficult for low-income residents, so too many low-income residents linger with too little hope.) I am sure you agree that the worst possible scenario is for low-income residents to continue to have few jobs or business opportunities, as they improve their skills, education, and personal resources.

To put it succinctly, investment incentives will work better than anything else. Investment incentives will enable existing businesses to expand, as well as for new businesses to start-up, which will result in creating and retaining many more jobs in the community. Existing and start-up businesses tend to have community roots, and they tend to hire local residents! (For example, in Portland, Oregon, the state Zone has had 67% of new hires who are local residents coming from within the Zone.) The state Enterprise Zones across the country that do succeed have done so as the result of existing businesses--expanding, and of new businesses--starting up, through strong incentives. The strongest state incentives are firstly, property tax abatements, and secondly, income tax credits for business, and thirdly, a full package of incentives (including sales tax reductions and low-interest loan programs). This is due to the fact that there appears to be a correlation between the dollar value of the incentives with the impact on economic growth.

The false paradigm of many people is that Enterprise Zones primarily attract outside firms to relocate to blighted areas, which result in a zero sum competition of loss and gain between communities. Whereas, those state Enterprise Zones that do succeed have primarily expanding and start-up business activities within the Zones, which create many new jobs. Another false view is that tax incentives are a giveaway for Enterprise Zones businesses, whereas conversely it is not easy for these businesses, which often have additional costs in training new hires and in managing new personnel with very high rates of absenteeism and tardiness. (Additionally, job placement and training programs by private companies have been essential to the successful hiring of Zone residents.) Finally, another myth is that Enterprise Zones are costly in tax revenues, whereas revenues are already low, so the long-term benefits far outweigh the costs. Thus, tax costs and scoring by the congressional committee staff should be kept from being skewed too high, which is a common tactic by those opposing Enterprise Zones.

Lastly, the current legislation is based on the paradigm of local public officials organizing community partnerships for the ultimate purpose of "making a creative deal" with businesses, especially in attempting to lure outside businesses. Without strong economic incentives, this weak program can only go so far. HUD Secretary Andrew Cuomo calls his new special assistant from Detroit a "miracle worker," implying that success in an Enterprise Zone is primarily dependent upon exceptional governmental managers. Without strong economic incentives, Secretary Cuomo is right, it does takes a miracle worker to achieve any success. However, strong economic incentives would enable Zone residents and entrepreneurs to become miracle workers themselves with greater financial independence in their own lives and activities. Under the current program, local officials seek "pledges" from banks for additional business loans, which is unfortunately more like a Jerry Lewis telethon (which, of course, is a noble charitable cause), than a dynamic economic system in place. With strong economic incentives, the banks won't need to make pledges, as they already would be loaning out much money to countless business ventures.

In sum, Enterprise Zones are not public charities. Each and every Zone can be a microcosm for achieving the American Dream. The American Dream is complete for each one of us, only if it is possible for all of us. If I could accomplish one thing today, it would be to help change the paradigm to providing capital formation and investment incentives to small and medium companies already existing or starting up inside the low-income areas. Based on my research work of over sixty Zones, this is how an explosion of new jobs and business opportunities can be created, year after year, in every Zone across the nation.

Chairman JOHNSON of Connecticut. Thank you very much, Dr. Van Allen.

I would like to recognize Mr. Cowden, executive director of the American Association of Enterprise Zones.

STATEMENT OF RICHARD H. COWDEN, EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF ENTERPRISE ZONES

Mr. COWDEN. Thank you, Madam Chairwoman. We greatly appreciate this opportunity to offer testimony that reflects the experiences of many city and State officials who work with a wide variety of targeted redevelopment programs. I will summarize our written testimony briefly.

I should note that, from the outside, enterprise zones were not expected to operate simply as a set of local tax breaks. They were designed to create a linkage among local, State, and Federal initiatives. Because Congress did not act on Federal zone legislation until 1993, virtually all the research in this area has focused on the effects of State and local tax incentives, which have only a moderate impact on business location decisions.

But most studies the State designated zones did not measure was the degree to which cities and States used the program as a targeting mechanism for a wide range of strategies. In many cities, local officials have learned to deal comprehensively with several factors, not just tax costs, that deter reinvestment in aging areas. By far the most successful zones have combined the idea of incentives with practical measures to improve infrastructure and basic services.

Since our organization formed in 1985, we have consistently advocated a Federal zone policy that is based on the knowledge that cities and States have already gained about such programs. Although the new empowerment zone program parallels rather than dovetails with the State zones, we are encouraged that some new Federal measures, such as the brownfields program and new empowerment contracting program, may well compliment both Federally and State designated zones. Congress and the administration should explore additional policies like these.

Those of us who have come to appreciate enterprise zones as a routine redevelopment planning technique have urged Washington lawmakers to adopt our demystified view of the concept. We note that only here within the beltway are enterprise zones still considered to be new and exotic. Washington has fallen behind the curve almost entirely because of its partisan differences.

Throughout the 1980's, most Democrats rejected such bills, largely because Jack Kemp had introduced them. Most Republicans would only support a bill that was designed as a demonstration of supply side economics. Neither party sought to enact a consensus-driven zone proposal until civil disturbances shook Los Angeles in 1982.

I realize that today's hearings are for oversight purposes, but as we work toward new legislation, all parties at interest should bear in mind some sound guiding principles.

First, the legislative process should start with an understanding that a geographically targeted initiative can be a sensible component of our overall policy on cities. It should be flexible enough to accommodate proposals from across the political spectrum. This can be done only if those who develop the legislation can agree to iron out their ideological differences through compromise.

Second, the legislation should not be aimed at identifying one or two Federal benefits that are the answer to urban poverty. Economic problems in cities relate to a complex of causes and therefore are unlikely to respond to simplistic solutions. Congress should not overestimate the power of any given Federal incentive, nor should it underestimate the power of zone programs to stimulate local problem-solving activities.

Third, experimentation was central to the original enterprise zone proposal. Any new program should incorporate that principle. Lawmakers should be willing to sign on to a program that includes provisions they favor, as well as to those about which they have doubts. Incentives should be tested at more than one rate in order to identify their marginal levels of efficiency.

Finally, regardless of what benefits ultimately are included in a prospective zone program, it is critical that all sides accept a single set of implementation criteria as the ongoing policy framework. As of today, the empowerment zone program relies on one set of eligibility standards, and H.R. 1031 would use another. The differences are immaterial, and yet adoption of H.R. 1031 in its current form would give us two entirely separate Federal zone programs with incompatible sets of regulations and implementation systems. A better option would be to use the existing EZ–EC methodology and improve on it over time.

Thank you for your attention, and I will be happy to answer questions later.

[The prepared statement follows:]

TESTIMONY PRESENTED TO THE SUBCOMMITTEE ON OVERSIGHT
OF THE HOUSE COMMITTEE ON WAYS AND MEANS

SUBMITTED ON OCTOBER 28, 1997, BY
THE AMERICAN ASSOCIATION OF ENTERPRISE ZONES

We greatly appreciate this opportunity to offer testimony that reflects the experiences of many state and local officials who work with a wide variety of targeted redevelopment programs. Our members have been in ideal positions to monitor enterprise zones as they evolved from a federal proposal, to state-driven initiatives, and eventually to a national policy.

Following are some perspectives on this concept, including observations on how they perform, their effectiveness, their relationship to regional policies and the proper role for the federal government in advancing zone-based programs.

How enterprise zones operate

Former Housing Secretary Jack Kemp first introduced federal enterprise zone legislation in 1980 as a supply-side alternative to earlier urban revitalization programs. Although initially proposed as a bi-partisan bill, it fell victim to Washington's ideological divisions and remained on the congressional back burner.

Responding to signals from the Reagan administration, several states began establishing their own versions of the concept and by the late 1980s, four out of five had established some form of enterprise zones. In 1985 we recognized this movement as a significant phenomenon; never before had so many cities and states implemented such a policy with no formal federal involvement. Without Washington's support or consistent national guidelines, the zones lacked both recognition and needed resources. However, at the same time the cities and states found themselves free to implement the policies in any way that suited their needs and circumstances. This yielded a robust set of variations on the original theme, and we believe these experiences remain valuable guideposts to future programs.

The great majority of the state-designated zones based their initial programs on reductions in state and local taxes in designated areas. Some relied instead on targeted low-interest loans and grants. Several adopted a mix of incentives and combined business attraction activities with comprehensive improvements in local services and infrastructure.

The states tried more than one implementation model. In some states, incentives were offered in areas that met arbitrarily set distress thresholds. But the model that prevailed among the majority of states involved an invitation to localities to nominate areas for state designation and to formulate their own strategic plans for addressing specific economic concerns.

Over time we have identified significant growth in many of these areas, but their performance has not been uniform. In states where there is no linkage between local and state commitments to the policy, the programs have tended simply to become part of the states' overall business recruitment packages. In cities that have relied entirely on tax abatements as the central focus of the program, the results have been disappointing.

By far the best performances have been recorded in states where the zone policy represents a challenge from the state to cities to identify the root causes of localized economic decline, to organize feasible action plans and to reinforce their decision-making with a tailored mixture of state support. In these states, the policy is no longer thought of merely as a tax-incentive program; it has emerged as a new and highly focused form of redevelopment planning.

Program effectiveness

Within months after the first enterprise zones were designated, observers began asking whether they "work." The question itself reveals much about how we regard cities, their economies and the public sector's relationship to them. The causes of urban decay can be attributed to long-term shifts, many of which actually were precipitated by public policies, such as freeway development that lured businesses out of the central cities to the suburbs.

Those who understood these impacts realized modest cuts in state and local taxes would be inadequate to the task of reversing such pervasive trends. And yet both our feedback from the zones and empirical research in this area has found these programs to have had generally positive effects. Research on two of the leading zone programs in Indiana and New Jersey have indicated encouraging levels of growth in previously declining areas. The most broad-based assessment by a Penn State research group found that a quarter of the state-designated zones studied in 17 states were outperforming the national economy.

What is important to understand about this data is that it tells us more about communities' and states' interest in restoring low-income neighborhoods than it does about any individual benefit or set of incentives. Where the zones became the centerpiece of cities' overall commitment to redevelopment, they tended to generate encouraging outcomes, regardless of what types of inducements they offered private investors. In these cases, local authorities took sensible steps to make critical upgrades in the zones, ranging from capital improvements to enhanced police and fire protection. Under these circumstances it is difficult to disaggregate effects that relate to incentives from those attributable to a redoubling of effort on the everyday building blocks of local economic vitality.

Indeed, perhaps the most significant knowledge we have gained about zone-styled programs is that their role as incentive areas probably is not as important as their role as planning catalysts. They give local authorities a rationale not simply to respond to the competing demands of each neighborhood but to concentrate on areas that have experienced critical economic losses.

Thus, if the question is whether zones have transformed slums to models of affluence, the answer is no. But if the question is whether zones represent a valid state and local method of addressing economic concerns in areas of clustered poverty, the answer is emphatically yes.

Regional context

The fact that enterprise zones were not adopted as a national initiative throughout the 1980s and early 1990s diminished their role as an economic policy innovation. Lacking the stature of a federal urban policy, they had little opportunity to become more fully integrated into our larger set of economic development tools. Virtually all of the academic research on zones related to the efficacy, or lack thereof, of tax incentives. Our organization, in fact, was among the very few that acknowledged the potential of the program as a policy framework for the challenge of rebuilding high-poverty areas.

Today's urban policy experts point to the need for both an "outside game" and an "inside game" in addressing metropolitan-wide economic matters. This means controlling sprawl, establishing an improved sense of regional cooperation on common concerns, as well as an ambitious commitment to targeting pockets of poverty. Under the proper circumstances, enterprise zones could, and probably should, become a commonly accepted means for organizing much of the inside game.

This would mean assuring jurisdictions within a metropolitan area that if they suffer declines due to age or technology shifts, they can qualify for a comprehensive, regionally backed commitment to their recovery. As our metropolitan areas age and as problems once confined to the inner cities move increasingly to the older suburbs, more and more communities will find this to be a welcome scenario.

The federal role

When our organization submitted recommendations to the Clinton administration as it prepared its 1993 zone proposal, we envisioned a broad-based policy that would build upon the substantial experiences of the state-designated zones. For this reason, we suggested a two-tiered program that would challenge any community with distressed areas to formulate a strategy indicating how it planned to resolve specific problems and how its state and private-sector interests would contribute to the process. We favored non-competitive federal recognition of these areas, without unrealistic pledges of federal benefits, but with assurances to provide budget-neutral support through regulatory waivers, fast-tracking and funding preference whenever possible.

We also described an upper tier of designations that would allow participating localities to nominate zones for federal incentives and benefits that could be provided on a trial basis. This approach, we believed, would let federal policy makers evaluate the effects of individual investment and job creation inducements under controlled conditions. Successful measures might eventually be offered more widely, while unsuccessful ones could be discarded.

We continue to believe this approach offers the best model for a national urban policy that is based primarily on state and local initiative. It can test out a variety of benefits at a limited number of sites and at the same time encourage innovative revitalization techniques in a relatively large number of communities.

Some of our suggestions were incorporated into the Empowerment Zones and Enterprise Communities program under the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66), and subsequent research is confirming their validity. A recent Rockefeller Institute study of the program found that, "It appears to be clear that the process of engagement in strategic planning...was a positive process separate from the issue of actual monies received for the designation." This finding is especially important to consider as federal officials seek answers to the question of how to target assistance to high-poverty areas. The simple federal challenge to cities and states to address these problems can provide a powerful motivation to organize constructive local responses. Unless we understand that principle as the key to implementing a national redevelopment policy, we will continue to wonder whether to give a little help to many cities or generous help to only a few.

To its credit, the Clinton administration has implemented our recommendation to provide preference in accessing federal resources, at least to some of the areas that qualified under the EZ/EC program. The Rockefeller Institute study noted that, "Some communities appear well on their way to gaining more resources from beyond the EZ/EC designation than from the SSBG (Social Services Block Grant) or EDI (Economic Development Initiative) awards themselves, in certain cases from preference given for other federal programs."

Other examples have surfaced this year of both legislative and administrative provisions that can underscore the performance of many zone-styled programs. Three that are of interest are outlined as follows:

Brownfields--The Taxpayer Relief Act of 1997 includes a small provision that will permit expensing of costs of redeveloping contaminated properties within or adjacent to census tracts with at least a 20 percent poverty rate. This can be considered nearly an automatic benefit for virtually all areas that are eligible under the EZ/EC program and for most state-designated enterprise zones.

Empowerment Contracting--The administration has established a new policy that gives federal procurement contractors a bidding advantage if they operate in areas with at least a 20 percent poverty rate. This also can be considered a new incentive available to nearly all zone-based programs.

Opportunity Areas for Out-of-School Youth--Designed to offer job preparedness funds to areas with high levels of unemployed young people, this program also is targeted to neighborhoods that qualify as empowerment zones.

All of these measures are moderate in scope and have been approved by consensus. Each addresses a problem that is commonly found in distressed areas. Each can be geared to zone-designated areas and yet need not be offered exclusively in zones. As Congress considers new proposals, such as the American Community Renewal Act (H.R. 1031), it also should consider the advantages of targeting more measures that already are in the federal budget to provide additional support to cities that have gone the extra mile by operating a zone program. If, for example, prospective increases in federal revenues result in additional transportation funding, Congress should tailor part of the increment to addressing infrastructure needs in areas designated as zones.

As this year began, we understood that the Clinton administration planned to expand its EZ/EC program with 100 new designations and that H.R. 1031 would be introduced. We encouraged congressional sponsors and the administration to work toward a bill that could incorporate the major features of their respective initiatives. With the strong prospect of a major tax-cut vehicle on the legislative fast track, it appeared possible that such a compromise could be struck. However, this was the year of the "middle-class" tax cut and, although a pared-back expansion of the program was adopted, neither side included a zone-styled proposal as a high priority.

Those of us who believe this is an important aspect of domestic policy can only wonder why this hearing is being held after the 1997 tax bill has been signed into law. We note that only here within the Beltway are enterprise zones still considered to be a new and exotic concept. Washington has fallen behind the curve almost entirely because of partisan differences. Throughout the 1980s Democrats routinely rejected such bills, primarily because Jack Kemp had introduced them. Republicans would only support a zone bill that was designed as a demonstration of supply-side economics. Neither party sought to enact a consensus-driven zone proposal until civil disturbances shook Los Angeles in 1992. The empowerment zone legislation won approval only at a time when one party controlled the White House and Congress.

If today's hearing is to lead to a meaningful accord, all parties at interest should bear in mind some sound guiding principles.

First, the legislative process should start with an understanding that a geographically targeted initiative can be a sensible component of our overall policy on cities. It should be designed to be flexible enough to accommodate proposals from across the political spectrum. This can be done only if those who develop the legislation can agree to iron out their ideological differences through compromise.

Second, the legislation should not be aimed at identifying one or two federal benefits that are "the answer" to urban poverty. Economic problems in cities relate to a complex of causes and therefore are unlikely to respond to simplistic solutions. Congress should not overestimate the power of any given federal incentive, nor should it underestimate the power of zone programs to stimulate local problem-solving activities.

Third, experimentation was central to the original enterprise zone proposal; any new program also should incorporate that principle. Lawmakers should be willing to sign on to a program that includes provisions they favor, as well as those about which they have doubts. Incentives should be tested at more than one rate in order to identify their marginal levels of efficiency.

Finally, regardless of what benefits ultimately are included in a prospective zone program, it is critical that all sides accept a single set of implementation criteria as the ongoing policy framework. As of today, the empowerment zone program relies on one set of eligibility standards and H.R. 1031 would use another. The differences are immaterial and yet adoption of H.R. 1031 in its current form would give us two entirely separate federal zone programs, with incompatible sets of regulations and implementation systems. A better option would be to use the existing EZ/EC methodology and improve upon it over time.

Chairman JOHNSON of Connecticut. Thank you, Mr. Cowden.
Mr. Caprara.

STATEMENT OF DAVID CAPRARA, DIRECTOR OF POLICY, NATIONAL CENTER FOR NEIGHBORHOOD ENTERPRISE

Mr. CAPRARA. Madam Chair, Mr. Coyne, at the beginning of the 104th Congress the Speaker asked the National Center for Neighborhood Enterprise to convene neighborhood leaders to look at pressing problems of poverty in the inner cities. And from our neighborhood leaders task force recommendations, many are found in the Community Renewal Act sponsored by Messrs. Talent, Watts, and Flake, including measures for expanded capital access for small businesses, removing the discrimination against faith-based service providers in our cities, strengthening the role of parents in education, and directly empowering neighborhood groups though vehicles like charity tax credits.

We believe this approach will be a complement to the Administration's program by recognizing the role that grassroots groups play in moral and spiritual and cultural renewal that underpins development.

In the past year, we demonstrated that the restoration of civil order is a key prerequisite for development. When 12-year-old Darrell Hall was murdered here in D.C. in a housing project in January, in a housing development called Benning Terrace, our president, Bob Woodson, stepped in with a group called the Alliance of Concerned Men and together forged a truce between rival youth factions in that community. That was the subject of a special hearing by House Judiciary on May 8.

Today this area, which was once known as the most murderous section of D.C., is now being hailed as one of the best kept, with manicured lawns and gardens, that are actually kept up by a group called Concerned Brothers of Benning Terrace.

In today's Washington Post is an article about common-sense capitalism in the City of Indianapolis, which is another area where we trained neighborhood leadership with the support of Mayor Goldsmith over the last 3 years. And I think the neighborhood leaders there again demonstrated the importance of civic order as a prerequisite for the rebirth of community capitalism.

This weekend, we are meeting with grassroots leaders from Hartford, Connecticut, Dallas, L.A., and Washington to further develop this youth crime intervention model as a grassroots prototype. And I do commend your joint consideration of this model with House Judiciary and the Housing committees as one key element for urban revitalization.

In the District, as you know, the Enterprise Community program has not gotten off the ground, where $3 million has been allocated but stalled. I commend to this committee the work of former Representative Fauntroy and longtime ESOP pioneer Norman Kurland, who have called for a D.C. "capital homesteading plan." This approach would fund a new stream of economic development not through the Tax Code or social service appropriations, but by dramatically accelerating growth through the use of the discount window of the Federal Reserve system to provide low-cost, unsubsidized capital credit through D.C. banks to finance new enterprise formation.

This so-called "super-empowerment zone" would expand asset ownership for D.C. residents through mechanisms such as ESOPs and comparable profit-sharing mechanisms at the community level.

I would like to acknowledge the presence of Antonio Bentancourt, president of the World Institute for Development and Peace, that has been involved in championing this program throughout D.C. and the developing world.

Given the nonperformance of the D.C. Enterprise Community to date, I urge this committee to examine the efficacy of testing this alternative strategy as a national exemplar to promote expanded capital ownership, through community intermediaries in the private sector that would spur high rates of growth independent of taxpayer subsidies.

I would note that many members on this committee, including Chairman Archer, previously cosponsored expanded capital ownership legislation, dating back to 1975 with the Jobs Creation Act.

Another comparable approach, individual development accounts, or IDA's, have been pursued by the Corporation for Enterprise Development and others as a universal savings mechanism for low-income residents for education, health, business start-up, retirement, and home ownership. And I suggest that these asset development mechanisms for persons at the lower rung of the economic development ladder be looked at.

I was involved with Jack Kemp as a Deputy Assistant Secretary at HUD. I also served on the President's task force after the L.A. riots. And I must say, when I went from that post to work with Governor Allen to run the Virginia enterprise zone program, I was heartened by the vigor that Secretary Cuomo brought to the EZ–EC program. I give high marks to the way it was packaged.

I wish I could say the same with regard to HHS. Many of the Title XX block grants, as you are aware, have reflected unwieldy coordination not only at the Federal level but at the State level as well, where I think this "two-stop shop" approach has created problems.

So I conclude by noting the wisdom of this Congress in the last session in devolving many welfare and domestic programs to greater and greater coordination and leadership roles at the State level, and would suggest that this committee, HUD, governors and mayors, grassroots leaders, and Representatives Talent and Watts perhaps team up to incorporate some of the other recommendations we have heard here, to offer new incentives, "by right" or right of first refusal, to State enterprise zone departments.

I like something Dick Cowden has pushed for years, a two-tiered program that would again make a number of Federal incentives available "by-right" to State zones. And I would suggest that this one-stop shop, at the State level, will be closer to the people and the engines of private enterprise.

Thank you.

[The prepared statement follows:]

Testimony of David L. Caprara
Director of Policy
National Center for Neighborhood Enterprise

House Ways and Means Oversight Subcommittee Hearing
October 28, 1997

At the beginning of the 104th Congress the National Center for Neighborhood Enterprise was asked by the Speaker to identify strategies to empower neighborhood leadership in solving problems of poverty in low-income communities through our Grassroots Alternatives for Public Policy Task Force. Many of the recommendations of the neighborhood leaders on this task force are embodied today in the "Community Renewal Act" sponsored by Jim Talent, JC Watts and Floyd Flake.

These include measures to enhance capital access for small business; increase opportunities for faith-based service delivery; strengthen education through expanded parental choice; and directly empower neighborhood groups through Charitable Tax Credits. The Community Renewal Act complements the Administration's program by adding new targeted incentives for grassroots initiatives that are pivotal catalysts for moral and spiritual renewal.

In the past year, NCNE has demonstrated that the restoration of civil order is a necessary foundation for development. When 12-year old Darryl Hall was brutally slain in the Benning Terrace public housing community here in the District earlier this year, NCNE President Bob Woodson offered support to the Alliance of Concerned Men, who negotiated a truce between rival youth factions that has brought a dramatic end to youth violence in the community. This peace was the subject of a special hearing called on May 8th by Congressmen Henry Hyde and John Conyers of the House Judiciary Committee.

Today, an area of Washington that was once known as the most murderous section of D.C. is one of the best kept public housing sites, with manicured lawns and flowers that were planted and maintained by the young Concerned Brothers of Benning Terrace. The project was recently featured on ABC news and the front pages of our leading newspapers.

This weekend we are meeting with grassroots leaders from Hartford, Connecticut, Dallas, Los Angeles and Washington to exchange and document best practices for youth crime intervention and to refine a national replication model for this successful intervention. I recommend your joint consideration of this model with the House Judiciary and Housing Committees as one key element of urban revitalization.

As you know, the Enterprise Community program has not gotten off the ground in the District, where $3 million has been allocated but stalled through bureaucratic processes. I commend to this Committee the work of former Representative Walter Fauntroy and long-time ESOP pioneer Norman Kurland, who have called for a D.C. "Capital Homesteading Plan." This approach would fund a new stream of economic development opportunities not through the tax code or social service appropriations, but by dramatically accelerating growth through use of the discount window of the Federal Reserve System to provide low-cost, unsubsidized capital credit through D.C. banks to finance new enterprise formation.

This "Super Empowerment Zone" approach would expand asset ownership for D.C. residents through mechanisms such as Employee Stock Ownership Plans and comparable profit sharing mechanisms at the community level. Given the non-performance of the D.C. Enterprise Community, I urge this committee to examine the efficacy of testing such alternative strategies as a national exemplar promoting broad-based capital ownership through community intermediaries and the private sector, that would spur high rates of growth independent of taxpayer subsidies.

It is notable that ten members who served on this Committee including Chairman Archer previously co-sponsored expanded capital ownership mechanisms of this nature through the Jobs Creation Act as far back as 1975.

Individual Development Accounts (IDAs) have also been recommended by grassroots leaders and the Corporation for Enterprise Development as a vehicle that could be used to build a universal savings mechanism for education, health, business start-up, homeownership and retirement, to include asset development mechanisms for families at the lower end of the economic ladder.

As a former Deputy Assistant Secretary of HUD under Jack Kemp who served on the President's Task Force on Los Angeles Recovery after the riots, I was impressed by the vigor Secretary Cuomo brought to the EZ/EC Program and I give high marks for the way the program was packaged while I was overseeing Virginia's successful enterprise zone program in the Allen Administration.

I wish I could say the same with regard to HHS, but unfortunately, the track record of "cash transfers" in the Title XX block grants reflects unwieldy bureaucratic coordination not only at the federal level, but also within state governments where this "two-stop shop" has created processing problems for local planning committees and made state oversight more problematic.

Since 1994, this Congress has moved with great wisdom toward devolution of resources and responsibilities to states and communities in matters of welfare and other domestic programs. Virginia and 40 other states have a track record of leadership and accumulated experience in running their own enterprise zone programs.

Negotiations should occur among the leadership of this Committee, HUD, Governors and grassroots leaders, and Representatives Talent, Watts and Flake to determine if new program incentives could be made available by right of first refusal to state enterprise zone departments, who in turn could work to integrate available new resource incentives with current state zones in more of a "one-stop shop" manner that is closer to the people and the engines of private enterprise. Thank you.

* *Testimony represents the personal views of the author.*

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Key Points - Summary Recommendations

1) Grassroots recommendations incorporated into Community Renewal Act.

2) Restoration of civil order as a necessary foundation for development: NCNE's grassroots youth crime intervention success.

3) A "Capital Homesteading" option for the District of Columbia, through use of the Federal

Reserve Bank's discount window to provide unsubsidized, low-cost financing to expand capital ownership mechanisms (such as ESOPs) at the community level.

4) Individual development accounts for low-income asset accumulation.

5) Devolution of new program authority and incentives to the states.

The Capital Homesteading Initiative For D.C. Residents

EXECUTIVE SUMMARY

- The Capital Homesteading Initiative, based on the expanded ownership concepts and credit mechanisms of Louis Kelso and Norman Kurland, is a national exemplar to be launched as part of a Super Empowerment Zone located in the District of Columbia. It is designed to foster vigorous private sector growth that gives every citizen, particularly the poor, a piece of the action.

- This initiative will demonstrate:

  (1) How access to "self-liquidating" or "capital" credit for D.C. citizens can complement a new flat tax strategy, to transform the D.C. economy from a mini-welfare state to a just and vigorous market economy.

  (2) How the D.C. government can be significantly downsized while (a) creating widespread equity ownership and profit sharing in Zone enterprises; (b) reducing the cost to all D.C. taxpayers and employers, of social security and pension plans for employees; and (c) opening up a new source for financing private sector growth within the Zone.

  (3) How many public sector functions can be privatized ("people-ized") in a manner satisfactory to workers and their unions.

  (4) How the District's operating deficit and pension fund liability can be reduced, while providing dividend income and private sector job income for D.C. employees, present welfare recipients and those citizens who lose their jobs as a result of downsizing of both public and private sector work forces in the District.

- To accomplish these objectives, the Congress would establish the District of Columbia as a Super Empowerment Zone which would employ innovative approaches in four areas:

  (1) The Federal Reserve Board's long dormant discount mechanism would be reactivated to provide low-cost, unsubsidized capital credit to banks in the District of Columbia. The banks in turn would offer self-liquidating credit to D.C. residents to enable them to partner with investors or entrepreneurs who wish to help finance and commercialize advanced technologies created with taxpayer dollars, or to launch new productive enterprises within the Super Empowerment Zone.

  (2) Through the Fed's discount mechanism, self-liquidating credit would be made available to all citizens of the District as a means for acquiring assets and dividend income for the latter years of a person's life. Through ownership-expanding mechanisms like ESOPs, CSOPs, ISOPs and CICs, some of the pressure can be taken off of our Social Security, pension funds, Medicare and Medicaid programs in "out" years.

  (3) A professionally managed D.C. Community Investment Corporation would be established as a vehicle for planning and coordinating land development by and through the private sector. Every D.C. citizen would be eligible to become a

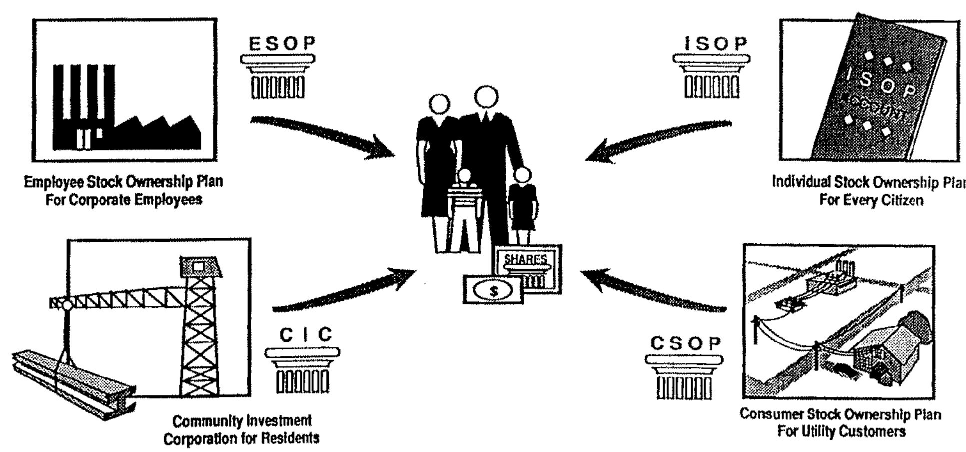
shareholder in the CIC; shares would be purchased with non-recourse, Fed-facilitated capital credit. The initial CIC Board would be appointed. Board members would consist of private sector and community leaders who support the Capital Homesteading Initiative and who have the experience necessary for supervising the professionals to be hired by the CIC Board. This initial Board would eventually be replaced by representatives elected by the CIC shareholders.

(4) A flat rate tax system for the District would be established together with a host of other tax reforms that will facilitate the implementation of these innovative approaches to stimulate and broaden the ownership of the private sector.

Economic Empowerment

Capital Homesteading

Through access to low-cost capital credit, citizens would build up their capital accumulations through such vehicles as ESOPs, CSOPs, ISOPs, and CICs, as well as through inheritance, gifts, savings, etc.



Chairman JOHNSON of Connecticut. Thank you very for your interesting testimony.

And now Ms. Lupke. I understand you are from Indianapolis. I missed that. I compliment you on the article in the paper today.

STATEMENT OF DIANE LUPKE, PRINCIPAL, LUPKE & ASSOCIATES, INDIANAPOLIS, IN, ON BEHALF OF THE NATIONAL COUNCIL FOR URBAN ECONOMIC DEVELOPMENT

Ms. LUPKE. Thank you, Chairman Johnson and Mr. Coyne. I appreciate your inviting me to testify on the performance of the empowerment zones and enterprise communities program.

I am a consultant who specializes in community economic development work and have worked with zones, the State-designated enterprise zones over the past 15 years, and now with empowerment zones and enterprise communities. Today I am here on behalf of the National Council for Urban Economic development. CUED is a nonprofit membership organization representing over 1,900 public and private economic development professionals and elected officials from cities, counties, and States.

Our members strive to develop and revitalize economically distressed areas by helping to create, expand, and retain job opportunities and increase local tax revenues, clearly the intent of our members, as reflected in the purpose of the EZ–EC program. I appreciate the opportunity to share some of their experiences today. I would like to summarize some of the comments from our members from my written testimony.

First, let me begin by saying that the EZ–EC program has broken new ground, in terms of building unprecedented partnerships within the community, coordination between agencies and levels government, and marrying the socioeconomic agenda with the more market-oriented economic development goals that the State zones had. These challenges are critical to successful community revitalization.

The basic framework and the intent of the program can work more effectively, but with refinements, certain key economic development provisions. In short, the foundation has been laid, but the house is yet to be finished. The house will, in large part, be built by private-sector dollars.

Thus, it is incumbent upon any program that seeks to revitalize blighted areas to leverage public funds with private-sector investments. The EZ–EC program must enhance the capacity of communities to attract private-sector resources by providing them with the adequate tools needed and further resources.

There are a number of provisions in the EZ–EC program that can specifically support economic development activities, but they have not reached their optimum potential. In a membership survey conducted this last summer on the empowerment zone and enterprise community program, our members rated the economic development impact of the program as, on average, somewhat effective, with 16 percent responding that the program was currently ineffective.

I would like to focus on three of the programmatic elements that require attention: The EZ bond, the employment tax credit, and brownfields redevelopment.

First, let me comment on the EZ bonds. The tax-exempt private activity, EZ facility bond, the EZ bond, could allow for greater funding opportunities for business expansions, especially for midsized cities that are located in low-density States.

One of our members, the city of San Diego, began marketing the new EZ bond to businesses soon after receiving the designation, but they encountered a number of difficulties in attempting to work with the bond.

First, in attempting to put together a data base, the city staff actually had to walk the boundaries of the zone to gather the street addresses to form a database of zone residents. This is really too expensive for most communities.

Secondly, the low $3 million tax-exempt cap created another hurdle, this time with bond underwriters. The maximum bond issue size made the investment of numerous hours of legal work seem unappealing and, of course, very expensive.

Over a period of months, the city was able, at considerable cost, to create the necessary forms and develop criteria. And, most importantly, they did find an eligible business to work with. Figi Graphics, a giftware manufacturer and distributor, was able to keep 227 jobs in the EC and, in addition, create 61 more jobs with the use of the EC bond to finance its expansion.

The bond is important, and I think it should be kept, but two changes must be made: First, raise the tax-exempt cap; and, second, streamline regulations. These changes would allow the bond to reach its potential as a financing mechanism and raise important capital for cash-strapped businesses.

Let me turn now to a second benefit, the employment credit. Linking zone residents with job opportunities has been a challenge since the first State zones were designated some 15 years ago. An important part of our ability to place zone residents in employment opportunities has been employment credits. With regard to the federal program, selected companies have been able to use the work opportunity tax credit.

One of our members, Wal-Mart, the retail giant who is located in all 50 States and in nearly all of the enterprise communities, has been successful using this credit. Unfortunately, most of our other smaller business members within EZ–ECs have not been able to use it. In addition some nonprofit corporations who work with businesses in helping them to access benefits have chosen not to offer that benefit any longer because it is simply too difficult for most of our businesses to access. Our members encourage the continuance of the WOTC but with refinement to make it easier to access.

I would also suggest that there needs to be a continued connection with the brownfields program. EPA's program has been helpful, and we appreciate that, but there needs to be a direct incentive to businesses to invest, clean up, and develop brownfields areas. Individual investors and developers cannot be expected to take on the entire cost of clean up and development.

Finally, let me mention a couple of other issues of coordination. The empowerment zone and enterprise community program is on track. The design acknowledges the fact that revitalization is not just a result but it is a process and it is a process of shared vision, coordinated action, and entrepreneurial ingenuity.

The empowerment zone program has brought many changes to the initial investments that were made by State zones. The Federal program has encouraged partnerships among the levels of government, different government agencies, residents, businesses, and institutions in each community that have been a very valuable part of the process of revitalization.

These partnerships have been invaluable in creating a sense of empowerment among program participants by returning the responsibility for the community to its citizenry. However, the empowerment that is created by this program should be sustainable and the impact of the program should not stop once the public program funds have been depleted.

Investment now in public resources, if properly leveraged, will result in an ongoing process so that revitalization leads to more long-term development. The EZ–EC program still does not offer enough incentives to really capture business investments for revitalization.

Madam Chairman, thank you, and members of the subcommittee, thank you again for the opportunity to share the experiences of our members at CUED.

[The prepared statement follows:]

Statement of Diane Lupke
Principal
Lupke & Associates

on behalf of

THE NATIONAL COUNCIL FOR URBAN ECONOMIC DEVELOPMENT

before the

U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Oversight

Congresswoman Nancy L. Johnson, Chairman

Tuesday, October 28, 1997
1100 Longworth House Office Building

Statement of Diane Lupke
Principal
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Chairman Johnson and honorable members of the Subcommittee, thank you for inviting me to testify on the performance of the Empowerment Zone and Enterprise Community (EZ/EC) program. My name is Diane Lupke. I am a consultant specializing in community and economic development and have worked extensively over the past fifteen years with state enterprise zone programs while also tracking the progress of their federal counterpart.

I am here today on behalf of the National Council for Urban Economic Development (CUED). CUED is a nonprofit membership organization representing over 1,900 public and private economic development professionals and elected officials from cities, counties and states. Our members strive to develop and revitalize economically distressed areas by helping to create, expand and retain job opportunities and increase local tax revenues. Clearly, the intent of our members is reflected in the purpose of the EZ/EC program.

Even before President Clinton created the EZ/EC program, the seeds had been planted for a place-based program that would tackle poverty in targeted low-income communities. Unemployment, disinvestment and social distress had become common in urban areas and were exacerbated in the 1980s with the recession, increased global competition and increased automation in the manufacturing sector. Economic developers were searching for ways to reverse and rebuild deteriorating communities and the enterprise zone concept emerged as a response to that search, first being implemented at the state level and finally at the federal level.

Enterprise zones, whether at the state or federal level, are not intended to serve as a panacea. But they can make a difference. In many states, enterprise zones have played an important role in bringing and maintaining jobs in the inner cities. In particular, in my home state of Indiana, for the most recent three year reporting period, 10,000 new jobs had been created and $1 billion in new investments in those zones had been made by businesses.

The success stories already coming out of EZ/ECs are also encouraging. There is the Small Business Development Center (SBDC) in East St. Louis that is helping to nurture entrepreneurship among zone residents. In Detroit, more than $2 billion in private-sector investments was pledged as a result of public-sector leverage. And brownfield cleanup and reuse allowed a Chicago meat packaging business to stay and expand within this EZ, creating an additional 80 full-time jobs.

The EZ/EC program has broken new ground in terms of building unprecedented partnerships within the community, coordination between agencies and levels of government, and marrying the socioeconomic agenda with the more market-oriented economic development goals. These challenges are critical to successful community revitalization. The basic framework and intent of the program can work more effectively, but with refinements to certain key economic development provisions. In short, the foundation has been laid, but the house has yet to be finished. The house will, in large part, be built by private sector dollars, thus it is incumbent upon any program that seeks to revitalize blighted areas to leverage public funds with private-sector investments. The EZ/EC program must enhance the capacity of communities to attract private-sector resources by providing them with adequate tools and resources.

There are a number of provisions in the EZ/EC program that could specifically support economic development activities but that have not reached their optimum potential. In a membership survey conducted this past summer on the EZ/EC program, our members rated the economic development impact of the program as, on average, "somewhat effective," with 16 percent responding that the program was currently "ineffective."

I would like to focus first on three programmatic elements that require attention: the EZ Bond, the employment tax credit and brownfields redevelopment. In addition, there are management issues, such as the governance structure of the individual zones, and where applicable, coordination with the state enterprise zone program, that need to be addressed in order to improve the effectiveness and long-term viability of the revitalization efforts.

Empowerment Zone Bonds

The tax-exempt private activity EZ Facilities Bond (EZ Bond) could allow for greater funding opportunities for business expansions, especially for mid-sized cities located in low-density states. The EZ Bonds can be used to finance up to $3 million for capital expansion projects. Businesses may qualify for the EZ Bond if 35% of their employees are or will be (within 18 months of bond issuance) residents of the EZ/EC. The $3 million maximum tax-exempt bond amount per project is not a capital expenditure limitation, and thus can be used with other types of financing including taxable bonds.

Although there is some debate as to who successfully did the first EZ Bond, San Diego's EC has certainly been at the forefront in using this program. The city may in fact be the only federal zone that has truly used the EZ Bond authority.

San Diego began marketing this new tax-exempt bond to businesses soon after receiving its EC designation. The city also decided to target businesses not eligible for small issue manufacturing industrial development bonds (IDBs), such as hotels, supermarkets and retailers. One of the first hurdles was finding out if the required percentage of employees lived within the EC. The city wanted to create a database of all EC residents' addresses for businesses to use, but this proved difficult since EZ/ECs were crafted by putting together census tracts. The city staff had to walk the boundaries of the zone and gather the residential street addresses that were within the designated area, and then provide these addresses to the business' human resources department database.

The low $3 million tax-exempt cap created another hurdle, this time with the bond underwriters. The maximum bond issue size made the investment of numerous hours of legal work seem unappealing. Differing bond regulations for HUD, the EC and the IRS added another layer to an already complex process. The city was able to create the necessary forms and develop business eligibility criteria over a period of months with the assistance of two long-time partners, the California Statewide Communities Development Authority and the bond counsel firm of Orrick, Herrington & Sutcliffe.

Long-time relationships again played a role in helping locate a business with a project that fit the program. Figi Graphics, a giftware manufacturer and distributor, wanted to expand its operations and was considering a larger, suburban space. The low interest rate on the EZ Bond of 5.25%, as well as the neighborhood's strong labor pool and building permit approvals, ensured that Figi would stay in the area, keeping the existing 227 jobs in the EC in addition to creating 61 more.

San Diego has since received requests on how to do the bond issue from other EZ/ECs. The interest in using the EZ Bond program exists, yet there are few examples and guidance for other EZ/ECs to use. The availability of this kind of bond could be a boon in particular to mid-sized cities in states with a $150 million volume cap. One of our members in San Diego has suggested that the more technical assistance and marketing of the program to bond underwriters are needed to help boost usage of this program.

Employment credit

The ability to find and maintain employment may be impaired for inner-city residents by the increasing location of many job opportunities into the hard-to-reach suburbs. Bringing job opportunities into an EZ/EC would help address various unemployment issues including keeping economic activity within the zone.

The Work Opportunity Tax Credit (WOTC) is an incentive to hire zone residents, among other individuals in specifically targeted populations. The original program, which began last October and expired at the end of last month, provided tax credits to businesses for certified employees who worked a minimum 400 hours or 180 days. Certification is done through the local State Employment Security Agency (SESA). The current program, funded for nine months, allows for a reduced credit to be awarded after only 120 hours of work.

Selected companies have been able to use the WOTC program very successfully, such as Wal Mart. The retail giant, with its tight operating margins, uses the program in all fifty states. The company is able to dedicate staff resources to track down information on available employment incentives allowing the company to benefit from programs like WOTC.

But not all companies, particularly smaller ones, have found the program as useful. A problem often cited by those businesses that have tried to use the credit include a difficult certification process that makes using the credit not cost-effective. Even Wal Mart has noticed that in some states, the certification process is slower and sometimes difficult to complete. And Aramark Corporation, which employs about 100,000 low-wage workers in food courts, hospitals and convention centers across the country, has run into similar problems. According to a Wall Street Journal article on the WOTC, Aramark found compliance with the program's restrictions and regulations difficult. For example, the minimum number of hours worked by an individual was difficult to achieve and this proved to be a disincentive to the company. And according to one respondent from our membership survey, the eligibility criteria for successfully receiving incentives by companies are "too narrow to be used by any but the most perfect companies."

Last year in Minneapolis, a local job training and placement group decided not to include the WOTC in its menu of incentives provided to businesses because too many local businesses had complained that they were getting the run-around from the state office administering the program. The application and eligibility requirements were cited as difficult to understand. The state refundable tax credit was easier to use and thus a more attractive incentive.

For businesses to really buy into a tax credit program, it needs to be easy to use. Complex incentives are not used by many businesses because the hoops they need to jump through, in the end, may not make using the tax credit cost-efficient. In Indiana, one of the easiest to use incentives, a 100% inventory tax exemption, is used by almost all zone businesses and accounts for 85% of the state enterprise zone program cost and results in ten times that amount in private investment.

Brownfields reuse

For many urban neighborhoods, devastated by urban renewal or long abandoned by industrial users, environmental clean up is critical to revitalization efforts. The clean up and reuse of brownfields and the clearing or rehabilitation of abandoned buildings will not only create more usable space for economic development, it can also help reverse an area's image or urban blight. Moreover, in many instances, brownfield sites are located in low-density areas and have good highway access which means that brownfield redevelopment can be both a reasonable and feasible part of revitalizing the community.

The inter-agency government cooperation that the EPA's Brownfields Redevelopment program has facilitated has been useful in helping communities focus on the problems of how to prevent, assess, clean up, and reuse these contaminated sites which are located in many of the EZ/ECs. In the past, federal programs have had to have been used independently, creating an artificial separation among problems that are inter-related.

Rehabilitating brownfield sites can create a viable location for business expansion projects and prevent existing zone businesses from moving out of the zone. In Chicago, two companies, Scott Peterson Meats and Madison Equipment, were considering relocation as a solution to their expansion plans but were able to expand their operations into former brownfields. The city demolished an abandoned bus barn adjacent to Scott Peterson Meats and cleaned up the site. The company invested $5.5 million in the new site, and the project retained existing jobs and created 80 new full-time jobs.

Brownfield cleanup and redevelopment is a key element in revitalization efforts. There must be an incentive for businesses to redevelop these sites. The cost of assessing and cleaning up brownfields cannot be expected to be borne by the individual investor because it will always be more cost-effective to invest elsewhere, such as in a more remote greenfield site. Increasing the linkages between brownfield redevelopment and the EZ/EC program is necessary not only to rehabilitate these contaminated areas, but to integrate them into an area's revitalization plan. In addition to the new Brownfields grant program included in the Budget and Tax Relief Act of 1997, a specific incentive that encourages investment in and cleanup of brownfield sites would be an important tool for the revitalization of urban neighborhoods.

Governance

The planning process required by the EZ/EC program is critical to developing a shared vision of the community. This process is exciting, productive, sometimes frustrating, but always transforming. It engages those not traditionally involved in the decision-making process for the community and challenges them to shape their own future. The shared vision of a renewed community must include each building block of a healthy community: concerned residents, struggling and thriving businesses, socially-minded institutions and a progressive government.

However, vision is nothing without action. Too many plans, after reaching the exhilarating peak of consensus, are handed over to an overworked government for implementation. Not surprisingly, the results are often disappointing. The action of handing the plan over to another entity to implement it changes the plan from "ours" to "theirs." Empowerment is replaced by top-down, business-as-usual implementation and becomes an adversarial process between the all powerful government and the disenfranchised citizenry.

In my recommendations to HUD last year, I suggested that in order for EZ/ECs to do more than just re-grant government funds, a governing entity responsible for program implementation must be created. My recommendation was to create a 501(c)3 nonprofit organization, similar to that used by Indiana enterprise zones, that is responsible for zone development. This has worked well in Indiana and in the EZ/ECs that have followed this approach, most notably Detroit, Michigan and Little Rock, Arkansas. The corporations, charged with implementation, are motivated to create partnerships, build the capacity of local residents and institutions, and most importantly leverage government resources. A sustainable structure is created that returns to and keeps within the community the responsibility for the revitalization of the community.

Linkages to state programs

State enterprise zone programs, as the precursors to the federal program, are useful both for the programmatic lessons and additional resources they provide.

Each of the state enterprise zone programs is fashioned uniquely to the needs and opportunities present in the economic and business climates in its state. These have been important programs that have produced significant results in some states. But for many communities, the profound level of distress cannot be reversed without significant federal resources. For example, the State of Michigan has worked aggressively to create a business climate attractive to business investment by restructuring its tax system and business incentives. However in Detroit, without the EZ, it is unlikely that the city would have been able to attract the auto industry investment crucial to its revitalization efforts.

State enterprise zone programs have been effective in attracting and maintaining vital business activity in distressed urban areas because of their focus on direct business investment. Yet they have fallen short in the revitalization of those communities because they lacked the structures and programming to link job creation to zone residents, reduce the incidence of crime and support the repair of a crumbling infrastructure.

The EZ/EC program has encouraged greater partnering within the community which has helped to coordinate action and resources better. As one respondent in our EZ/EC survey wrote, partnerships "create strong, viable communities." In the Indianapolis EC and overlapping state enterprise zone, this coordination brought to the surface new job opportunities. Broader communication and coordination with community groups and CDCs has resulted in wider dissemination of job leads that would otherwise remain hidden to zone residents.

The states of Ohio and Illinois have created well over 100,000 jobs each in their state enterprise zone programs. In large part however, they have failed in their efforts at revitalization because they lacked the federal resources to support development activity. The EZ in Chicago and Supplemental EZ in Cleveland have made a significant difference in the ability of those areas to create partnerships, leverage existing program resources, and establish the linkages necessary to ensure zone residents benefit from the increased business investment.

While state enterprise zone programs, up to this point, have focused solely on economic development, specifically industrial development, the EZ/EC program has not managed to create the same kind of direct economic development impact. Our membership survey indicated that the program has come up short in its ability to help communities to further their economic development goals. Of those that received designation, only one-quarter answered that the incentives are adequate. Specifically, they pointed out that the incentives are "too small to accomplish the goals," and that stronger incentives are needed.

Indiana is one of the few exceptions, with its program seeking to integrate economic with community development. This "marriage" of programmatic designs enables communities to tackle not just the economic problems associated with urban blight, but the socio-economic difficulties that undermine the success of economic development efforts.

The state programs have made inroads toward achieving revitalization. However, to truly reverse the downward spiral so many of our inner-city areas have experienced, more benefits and resources are needed. It is evident from the experience of the state programs that significant federal resources are needed to augment the state programs and complement the mix of benefits. The EZ/EC program can accomplish this with greater emphasis placed in three specific areas:

- Improved cash flow, created from reduced taxation through easily accessible tax credits and abatements;
- Increased access to capital through grants, direct loans and incentives for investment capital; and
- Support for development through flexible resources that may be used by communities to create new programming, enhance existing programming and creation of structures that enable a community to realize fully the benefits of new business investment.

The EZ/EC program can be a valuable partner to state enterprise zone programs. Alone these programs have helped communities improve their economic well-being but with stronger linkages and more significant benefits, the positive impact would be far more significant.

Conclusion

The EZ/EC program is on the right track. It's design acknowledges the fact that revitalization is not just a result, but a process of shared vision, coordinated action and entrepreneurial ingenuity. The community planning process has been instrumental in pushing communities to really evaluate what their resources are and focusing these resources on specific, key goals.

The partnerships that the federal program has encouraged among levels of government, differing government agencies, residents, businesses and institutions in each community have been a valuable part of the process of revitalization. These partnerships have been invaluable in creating a sense of empowerment among program participants by returning the responsibility for the community to its citizenry.

The empowerment that is created by this program should be sustainable, and the impact of the program should not stop once the public funds have stopped. An investment now in public resources, if properly leveraged, will result in an on-going process so that "revitalization" leads to more long-term "development." The EZ/EC program still does not offer enough incentives to really capture business investments.

Madame Chairman and members of the subcommittee, thank you again for the opportunity to share the experiences of our members in the implementation of this important initiative.

Chairman JOHNSON of Connecticut. Thank you very much for your testimony. It was very helpful and very interesting.

I would like to go back through a couple of little things. This business of a nonprofit and setting up an entity, one possible way to manage this would be to always require that they be sunsetted, so that after 5 years they would have to be recreated.

The reason is that they can, after the initial period of change, take on a life of their own, and since they are not elected officials and since they are governing public money, it can become a problem. They can become the captive of one group in the city, as opposed to a synthesis of all groups in the city. So the issue of sunsetting is something I hope some of you who have more experience than I do will think about.

I would also like to go back to Mr. Caprara's issue of the ESOP mechanism. For many years I have been talking about this, those of us who are interested in the microenterprise zone legislation, the micro loans, and we had testimony from the earlier panel about how the bonding mechanism wasn't as useful as using title 20 funds to give microloans.

ESOP's would allow, as part of this community planning process, communities to decide what kind of businesses they wanted, and people to make, like, $50 investments in ownership, and those who invested could be given an automatic employment preference because they owned a training preference.

So I think that is a tool for commitment and involvement that has enormous possibilities for us, because we have seen, through community policing, we have seen through a lot of other mechanisms, that if you can get people to buy in, a lot of other things happen, just like the things that have happened in the D.C. neighborhoods as we got people to buy in.

Do we need to change the ESOP law in any way to make it more usable in these circumstances?

Mr. CAPRARA. Well, I really share your desire to see from the bottom up microenterprise and individual development accounts, mechanisms to expand ownership in the neighborhoods being a pivotal part of this program.

What Mr. Kurland, in a detailed paper that I will provide to the committee, explained would be the notion of low-cost capital credit being made available through the Federal Reserve Bank under section 13, under its current powers. He has recommeded a demonstration of, basically, through the banks as an exemplar for what could be done around the country, making low-cost credit available for firms in this sort of super-empowerment zone that would be tied to asset or stock ownership, not only through ESOP's, but related community ventures—taking the CDC the next step further to actually vesting residents in the community in that stock ownership capacity.

So it is a very innovative idea that I think has been ahead of our time for a while. But, as you know, since 1975 ESOP's have been gaining hold in the country, and I will leave with the committee information that would describe approaches to expand dramatically the access to that capital credit for ESOP's in the District and around the country, without requiring costly new appropriations or tax subsidies.

Chairman JOHNSON of Connecticut. Thank you. I would appreciate that very much.

[The information was not available at the time of printing.]

Chairman JOHNSON of Connecticut. And for those of you who testified that you think—Dr. Van Allen, you were certainly one of them—that zero capital gains would be a useful additional incentive, those who did testify and didn't testify, I am happy to hear your comments on this.

My concern about that is that capital gains is such a long-term thing that really expensing is much more powerful. I got the Renaissance testimony in Michigan, where your immediate relief from current tax liabilities is much more powerful.

I guess I don't get it about the zero capital gains as an incentive, and I am concerned about Treasury's comment that you can really game this.

Mr. VAN ALLEN. Well, let me just say that, as I am sure you are well aware, capital gains is all about investment. And I think for these communities, to turn around, it is going to take a long-term approach, and I think that time is an important factor as far as incentives and the impacts over the long run.

Treasury historically has been against any tax incentive. I worked for HUD in the early/mid-1980's when we were discussing legislation, and Treasury was always against enterprise zones to begin with although I think that they are more on board now, at least with this program.

I just see that there are major investment incentives needed. I think that the empowerment zone program has a lot of good aspects to it. I just know that in Houston there is no way we could convince some Magic Johnson or anybody else to build a business or to renovate buildings in a low-income area without that.

Chairman JOHNSON of Connecticut. I think one of the things we all need to think about a little bit more than we have in the policy-making process in the past is long-term/short-term impacts, and with some of the incentives in the current law, they are, in a sense, easily withdrawn. You know, expensing for what equipment you buy during this period, they are easily withdrawn.

With capital gains, you set up different action for different people over a very long period of time. That concerns me. That is what happened with the notch issue in Social Security. There have been other instances in which we have set up, in a sense, long-term varied treatment depending on sort of time and place of what you did.

One of the problems with enterprise zones is that it sets up inequities, and I think the Renaissance program, as interesting as it is, also does raise, you know, "You across the street don't have to pay property taxes, and I on the other side do, and I send your kids to school."

So I am very concerned about the capital gains issue because the benefit is only long-term, and with the reduction in rates that we just passed, and particularly the advantage that we give holdings over 5 years, it seems to me that we are rewarding long-term capital gains much more generously than we have in the past.

Mr. VAN ALLEN. Madam Chairman, I was going to quickly comment that for large-scale investment by business, there has to be an incentive to do so if you are in an enterprise zone, if you are someplace else. Actually, the tax rates in enterprise zones tend to be higher than outlying communities, and, of course, there are crime issues and much more things. So to even cut taxes in an enterprise zone area, in essence, levels the playing field somewhat.

Chairman JOHNSON of Connecticut. Actually, that is a very good point, Dr. Van Allen. Tax rates in the cities do tend to be very much higher, and enterprise zones would only marginally cut into that.

Mr. Cowden.

Mr. COWDEN. We have been interested in a variation on the capital gain incentive, actually a rollover, which provides a more immediate benefit rather than a long-term benefit, in which you would have to hold your assets in a particular company for a time. The idea would be to give a company or give a taxpayer an incentive to get out of one investment and invest those funds in a zone-based business.

One way to avoid the problem that you have identified with being in the zone or out of the zone situation, if the incentives were targeted to or reserved for value-added or, you know, manufacturing-based businesses, you would have less problems of the—you know, the mom-and-pop store across the street not getting an incentive while another one does. You would tend to have fewer of those kinds of concerns.

At the same time, you get a better economic bang for your buck if you do target incentives to the value-added sector.

Chairman JOHNSON of Connecticut. Dr. Van Allen, you did not comment on the planning process. I thought your testimony was very interesting, and has been echoed in the preceding panel, that this is primarily about expanding businesses, about creating small businesses, it is rarely about attracting very big businesses into an enterprise zone. But you don't comment on the power of the planning process. It is kind of an interesting distinction between your testimony and others.

Do you think it hasn't had an effect in Houston?

Mr. VAN ALLEN. Well, unfortunately, Houston is probably the case that HUD wouldn't want us to cite today. But the planning process has not worked. People have not been able to get together very well. There just has not been strong enough leadership from the mayor's office. And, in reality, the incentives are not that strong with the enhanced community that Houston was designated. It is just 3 million in social service, welfare grant, and minimal other incentives.

So the engine in Houston, unfortunately, has not transferred into the zone as much as we all would like.

CHAIRMAN JOHNSON of Connecticut. Thank you very much.

Does anyone have any comment on any aspect that I didn't ask about and you are burning to share with us?

Thank you very much for your testimony. It has been very helpful.

I am sorry, I didn't realize my colleague, Congressman English, had joined us.

Mr. ENGLISH. No, Madam Chairman. Actually, I enjoyed the testimony, and I don't have any further questions that need delay this. I appreciate the recognition.

Chairman JOHNSON of Connecticut. I am very glad you can be with us. Some of the time, this is the day when Members are traveling, so they are not able to be back as early as they would have liked to. It is a pleasure to have you here.

Thank you.

[Whereupon, at 1:50 p.m., the hearing was adjourned.]

[A submission for the record follows:]

OCT.28.1997 11:17AM MAYORS OFFICE ECONOMIC DEVELOP NO.416 P.3

House Committee on Ways and Means
Subcommittee on Oversight
Written Testimony of Mayor Richard J. Riordan
City of Los Angeles
October 28, 1997

In the past four years Los Angeles has witnessed a full turnaround in our attitude towards economic development. Reducing crime and inspiring economic development have been my top priorities as Mayor. My aggressive pursuit of expanding our job base has allowed the city to develop new tools which have produced significant results. Not only are the Community Development Bank and the Targeted Neighborhood Initiatives off and running, but LA's Business Team in my office has provided businesses with the tax incentive, financing, job training, and permitting assistance they need.

Our experience has also shown that despite the phalanx of tools we have developed, they are often not powerful enough to make the type of impact we need in the high-risk investment areas of the Supplemental Empowerment Zone. Without the "hammer" of federal tax credits, the City's tool box is missing what could prove to be the most critical tool for tangible job growth in these high poverty areas.

The economy in Los Angeles continues to rebound from the recession which has held California in its grip longer than any other region of the country. And yet, while the growth in our entertainment, multimedia, fashion, bio-medical, and food-processing industries continues to forge forward, distinct pockets in this vast city are not realizing the full benefit from the region-wide economic recovery. While this may not be particularly surprising, it is troublesome. Increased investment and opportunities will help build these communities.

These communities deserve what they should have received three years ago--full Empowerment Zone status. These communities deserve not only the attention of local government--which they have, but of state law makers, and very importantly, our federal legislators.

The federal government has shown a degree of commitment towards improving high unemployment areas by working with the City to develop two of the most innovative economic development programs in the country. Our Community Development Bank, designated through the Supplemental Empowerment Zone, has already provided more funds to business than any other community lender in the nation. In little over one year of operation, the bank has approved $42 million in loans. This funding will help retain and create more than 1,200 jobs in these areas. The bank will continue to play a central role in attracting investment and jobs to these areas of need. The Targeted Neighborhood Initiative will provide 11 high unemployment communities with $3 million dollars over a three year period for community and economic development. The city is leveraging its own resources to compliment the federal outlay and remains completely dedicated to this very exciting project. Both the Community Development Bank and the Targeted Neighborhood Initiative are national models which will undoubtedly have very tangible impacts on the quality of life in areas where *quality* is in great demand.

Importantly, the city of Los Angeles is putting forward its best effort to address the needs of high unemployment communities. I have developed a team of professionals, LA's Business Team, specifically dedicated to attracting and retaining companies. As the small sample of their projects highlighted below illustrates, it is to the credit of these individuals that they have been able to show great success in attracting new investment to the city's high unemployment areas despite the limited incentives they have to offer job creators:

- First Class Foods, located at a site in South Los Angeles, in the heart of the area most impacted by the 1992 Civil Unrest, currently employs 100 people and will grow to 300 in the next two years. The Business Team assisted them with the on-site toxic contamination clean-up, helped to package an Industrial Development Bond and Section 108 HUD financing, and expedited permits through our city process.

- Superior Warehouse Foods, due to the state tax incentives and Business Team assistance, has located at a site previously destroyed during the Civil Unrest. As a result, 220 jobs have been created.

- Magic Johnson Theaters has undertaken an extensive development in the Crenshaw district, an area retailers have traditionally been hesitant to enter. It has experienced tremendous success with help from the Business Team. The Business Team assistance and state tax incentives were the components which enabled this project to become a reality. This initial development has catalyzed what will hopefully become a 20 acre redevelopment into a 240,000 square foot retail development. A $14 million financing gap remains for the expanded retail development.

- Federal Express is currently locating as a new tenant to a vacant 200 acre lot in East Los Angeles. This development will create 250 jobs.

- The Team is in the process of trying to attract Northrop's bus manufacturing facility to East Los Angeles. In such a large scale development, which would create 600-900 jobs, Northrop will locate at the site only if it makes economic sense. Located within the Supplemental Empowerment Zone, federal tax credits could sway the decision.

As this handful of projects illustrates, development in inner city areas requires not only creativity, but real benefits must be provided to counteract the many detractors facing companies. Unfortunately, while most of the successes noted above found the city's existing tools sufficient to convince them to consider our economically disadvantaged areas, most businesses find our tools too limited and never consider sites in our Supplemental Empowerment Zone. I fear this may ultimately be the case with Northrop. With the federal tax incentives, the higher poverty areas would have a greater ability to clinch these critical and high impact developments. The city is currently attempting to counter this in its own way. Because the experience of the Business Team has shown that in many instances tax incentives do make the difference, I have asked our City Council to create a city tax incentive for new and existing businesses within the Supplemental Empowerment Zone boundaries.

While I recognize that federal tax credits alone are not a panacea for our high unemployment areas, they would provide the Supplemental Empowerment Zone areas with the boost it needs. Without a doubt, we all benefit when these job producing businesses locate in high poverty areas. As you can see, we are attacking the problem as best we can...and we are making a difference. But, we need the additional infusion of tax credits (even if they must be shortened in length), as well as EDI investment funds, to deliver jobs and opportunity to the people and communities that deserve our utmost attention.