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Empowerment Zone/Enterprise Communities Program: Overview of Rounds I, II, and III

Bruce K. Mulock
Specialist in Government and Business
Government and Finance Division

Summary

In 1993, Congress set in motion a major economic development initiative designed to revitalize deteriorating urban and rural communities. The Empowerment Zone/ Enterprise Communities (EZ/EC) program targeted federal grants for social services and community redevelopment, and provided tax and regulatory relief intended to attract and retain businesses in designated areas. It embraced a two-tier designation process. Originally, six urban and three rural areas were designated Empowerment Zones (EZs). They enjoyed the bulk of the tax and grant incentives. An additional 60 urban and 30 rural areas were designated Enterprise Communities (ECs); they received a smaller package of federal incentives. In 1997, Congress created a Round II of the EZ/EC program, authorizing the designation of 20 additional EZs (15 urban, 5 rural). Round II EZs were given a different mix of tax incentives. And, unlike for the Round I EZs, the enabling legislation for Round II zones did not include Social Service Block Grant (SSBG) funding. Instead of mandatory SSBG funding, Congress has appropriated some discretionary funding for Round II EZs from FY1999 through FY2002.

At the end of the post-election session, the 106th Congress passed P.L. 106-554 which included authorization for the Secretaries of HUD and Agriculture to designate nine additional EZs (seven urban and two rural). Round III EZs were announced (see [http://www.hud.gov/news/release.cfm?content=pr02-008.cfm].) on January 15, 2002. The Consolidated Appropriations Act also included provisions that significantly affect Round I and Round II EZs. This report provides an overview of the EZ/EC program—including funding issues—as well as a summary of EZ-related provisions of P.L. 106-554. It will be updated as events warrant.

Background

Over the past half century, Congress has enacted a half dozen or more major economic development initiatives designed to revitalize some of the nation's more impoverished areas. Beginning with the Housing Act of 1949, which authorized loans and capital grants to help selected localities undertake so-called slum clearance and urban redevelopment, through the Model Cities program (1966), which sought to improve urban renewal by making redevelopment citizen-directed and by combining physical and social renewal, the Executive and Legislative branches have tried to find the right mix of incentives to address the economic plight of inner cities and poor rural areas.

The enterprise zone concept originated in Great Britain in the mid-1970s and emigrated to the United States a few years later. Enterprise zone legislation was introduced in Congress as early as 1980, but it was at the state level where experimentation with the concept flourished. By the late 1980s, over two-thirds of the states had embraced the concept, enacted legislation, and started programs.[1]

Contemporaneous with program experimentation by the states, Congress continued working to develop a comprehensive federal program of enterprise zones. Support for some type of federal government initiative increased, but there was lack of agreement over whether the enterprise zone approach would produce the economic and social effects sought as well as over how such a program should be designed.

Throughout the period, the fundamental concept of various enterprise zone legislation remained much the same: provide tax incentives and regulatory relief to firms willing to locate in economically distressed communities. So, too, did the goal: to increase investment, business formation, and employment in depressed areas in order to generate broader economic and social revitalization. What changed over time was the approach.[2]

Over the years, Republicans generally were the chief proponents of the enterprise zone concept; they called for capital gains tax breaks and other tax and regulatory relief to spur investment in poor communities. President Clinton offered a variation on the GOP plan putting more emphasis on wage credits, block grants, and grassroots planning, and staking out a federal role in coordinating resources in the targeted neighborhoods.[3]

EZ/EC Program: Round I

The 103rd Congress enacted the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993, P.L. 103-66), which established the Empowerment Zone/Enterprise Communities (EZ/EC) program, including eligibility criteria, designation procedures, and benefits. In January 1994, the Clinton Administration announced the nominating procedure (areas were nominated by state and local governments) and required that nominations be received by June 30, 1994.

After collaborating with other federal agencies, including Health and Human Services (HHS), Housing and Urban Development (HUD) and the U.S. Department of

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[1] Deborah K. Belasich. *Enterprise Zones: Policy Perspectives of Economic Development.* Garland Publishing, Inc., New York, 1993. p. xi.

[2] For a discussion of the evolution of the EZ/EC concept, see: Marilyn Marks Rubin. Can Reorchestration of Historical Themes Reinvent Government: A Case Study of Empowerment Zones and Enterprise Communities Act of 1993. *Public Administration Review*. March/April 1994, vol. 54, no. 2. P. 161-169.

[3] *Congress Votes to Create Empowerment Zones.* 1993 CQ Almanac. Washington, 1994. p. 442.

Agriculture (USDA) jointly issued an application guide requiring each applicant to submit its nomination along with a "Strategic Plan" developed with input from community stakeholders, such as residents, businesses, financial institutions, service providers, and state and local governments. These plans described the communities' overall visions for revitalization, linked these visions to the program's four key principles,[4] identified other governmental and private resources that would be committed to the program, and described potential barriers to successful implementation.

In December 1994, having received more than 500 nominations, the Secretaries of HUD and USDA announced the designation of 104 EZs and ECs —6 urban EZs, 3 rural EZs, 65 urban ECs, and 30 rural ECs.[5] All the designated communities are receiving federal assistance as established by OBRA 1993 and HUD's implementing regulation (24 CFR, part 597). Each urban EZ was allocated $100 million, and each rural EZ was allocated $40 million, in SSBG funds for use over the 10-year life of the program. All of the urban and rural ECs were allocated just under $3 million in SSBG funding.[6]

A key element of the program was federal funding for EZs and ECs made available through the Title XX Social Service Block Grant (SSBG) program. The Act amended Title XX of the Social Security Act to authorize the special use of SSBG funds for the EZ/EC program.[7] The use of SSBG funds was expanded to cover a range of economic and social development activities. As with other SSBG funds, the funds allotted for the EZ/EC program are granted by HHS to the states, which are fiscally responsible for the funds. Of critical importance, the Act authorized a one-time appropriation of $1 billion for HHS to be made available in SSBG funds over the 10-year life of the EZ/EC Program, thus ensuring that Round I designated areas would not be dependent on annual appropriations, as is typically the case.

Businesses in the 11 Round I EZs (Cleveland and Los Angeles were added by the Taxpayer Relief Act of 1997) qualified for the following tax incentives: (1) a 20-percent wage credit for the first $15,000 of wages paid to a zone resident who works in the

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[4] Zones and communities were selected on the basis of their ability to: spur economic opportunity by creating jobs, attracting private partnerships, and training residents for new job opportunities; promote community development through a long-term economic development strategy; establish community-based partnerships; and develop a plan for responding to community needs by integrating economic, physical, human, and other strategies.

[5] Round I Urban Empowerment Zones are located in: Atlanta, Cleveland, Chicago, Baltimore, Detroit, Los Angeles, New York City, and Philadelphia/Camden, NJ. Round I Rural Empowerment Zones are located in the Mississippi Delta, Kentucky Highlands and the Rio Grande Valley in Texas. For a complete list of both Round I and Round II EZS and ECs, visit the HUD and USDA websites noted at the end of this report.

[6] In 1994, more than 220 rural communities organized and completed the strategic planning process as part of their application for Round I. To assure that their important work produced continuing benefits to these communities, USDA designated them as "Champion Communities" and provided assistance to them.

[7] The SSBG program 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.

empowerment zone, (2) an additional $20,000 of section 179 expensing for qualifying zone property,[8] and (3) tax-exempt financing for certain qualifying zone facilities.[9]

105th Congress Authorizes Round II

The Taxpayer Relief Act (TRA) of 1997 (P.L. 105-34) authorized the designation of 20 additional EZs, 15 urban and five rural. Businesses in the Round II EZs were not originally eligible for the wage credit, but were eligible to receive up to $20,000 of additional section 179 expensing. Businesses in the Round II EZs also were eligible for more generous tax-exempt financing benefits than those in Round I EZs.[10] The tax incentives with respect to the Round II EZs generally are available through 2008.

Also, Round II offered additional potential to link communities to their broader regional economies. Round II EZs were able to designate up to 2,000 acres of underutilized "developable property" outside the formal Zone area that can receive Zone benefits and be used for job creation for Zone residents. In contrast with Round I, Indian tribes with poverty areas also qualified to apply for and receive designation.

In the Round II competition, 279 communities and groups of adjacent communities competed for the Empowerment Zone designation—119 in urban areas and 160 in rural areas. As was the case with Round I, in order to compete for EZ status communities were required to submit strategic revitalization plans stating how they would transform their troubled communities.[11]

As with the original EZ/EC designations, the selection of Round II EZs was based on a scoring system that measured the quality of revitalization plans and private and public sector commitments made to implement the plans. Career civil servants made the selections. In addition to the new EZs, 20 additional communities were subsequently designated as Rural Enterprise Communities.[12]

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[8] That is, EZ businesses are permitted to deduct an additional $20,000 in capital expenditures. P.L. 106-554 increases the expensing allowance to $35,000 effective December 31, 2001.

[9] The tax incentives with respect to the EZs designated by OBRA 1993 generally were available during the 10-year period of 1995 through 2004. P.L. 106-554 extends the designation of EZ status for existing zones through December 31, 2009.

[10] Specifically, the tax-exempt financing benefits for the Round II EZs are not subject to the State private activity bond volume caps (but are subject to separate per-zone volume limitations), and the per-business size limitations that apply to the Round I EZs and ECs (i.e., $3 million for each qualified EZ business with a maximum of $20 million for each principal user for all zones and communities) do not apply to qualifying bonds issue for Round II EZs.

[11] In Round II, 15 of the 25 newly designated rural EZs and ECs were Champion Communities from Round I. Since 1999, USDA has formalized the Champion Communities program by inviting all the communities who submitted strategic plans to continue implementing their plans by signing agreements with USDA.

[12] Authorization for new rural ECs was included in the Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY1999 (H.R. 4328, P.L. 105-277).

Funding for Round II. The TRA of 1997 did not appropriate SSBG funds, as had been available to Round I EZs and ECs. Although the Clinton Administration sought full funding for the Round II Zones at the same level as Round I, it did not happen. Instead, Congress has appropriated discretionary funding for Round II EZs each year. Appropriations for urban EZs from 1999 through 2002 totaled $330 million or $22 million for each zone. For FY2003, the President's Budget requested zero appropriations.

In the 107th Congress, two bills (H.R. 2637, S. 2692) would provide general funding authorization for the full funding of both Round II EZs and rural ECs. And, the Senate VA-HUD appropriations bill (S. 2797, S.Rept. 107-222) and the House VA-HUD subcommittee mark would provide $30 million for Round II EZs and ECs. Further, the House Financial Services Subcommittee on Housing and Community Opportunity held hearings on April 10, 2002, on the current status of Empowerment Zones (including funding issues) and Renewal Communities.[13]

Round II funding for the rural EZs and ECs has been more convoluted. For FY1999 the Agriculture appropriations bill provided $15 million; the bill specified $10 million for rural EZs and $5 million for rural ECs. Identical funding amounts were provided in FY2000 and FY2001, but came through the VA/HUD appropriations bills (a recission for FY2001 lowered the figure to $14,967,000, each EC receiving $1,995,500 and each EC $249,450). For FY2002, the $14,967,000 amount was appropriated through the Agriculture appropriations bill. For FY2003, USDA requested $15 million, but the amount was deleted by OMB for the President's Budget.

P.L. 106-554 Includes Additional EZs (Round III) as well as Provisions Affecting EZs and ECs Designated in Rounds I & II

On December 15, 2000, at the end of the post-election session, the 106th Congress—as part of the Consolidated Appropriations Act of 2001 (P.L. 106-554; 114 Stat. 2763-64)— passed the Community Renewal Tax Relief Act of 2000 (H.R. 5662), which included authorization for the Secretaries of HUD and Agriculture to designate nine additional Empowerment Zones (seven urban and two rural) by December 31, 2001, bringing the total number of EZs to 40. The Act, signed into law on December 21, 2000, also included provisions that significantly effect Round I and Round II EZs.[14]

New Empowerment Zones Designated: Round III. On January 15, 2002, nine new EZs were added to the 31 existing ones authorized by the first two "Rounds." The eligibility and selection criteria for the Round III EZs were the same as the criteria that applied to Round II zones. It should be noted that neither P.L. 106-554 nor any other legislation mentions SSBG funding for the newly authorized Round III.

Businesses in the Round III EZs are eligible for: a 20 percent wage credit (on the first $15,000 in annual wages for each worker); increased section 179 expensing (up to

[13] at [http://financialservices.house.gov/hearings.asp?formmode=detail&hearing=115&comm=5].

[14] Provisions dealing with Empowerment Zones were included in H.R. 5662, the Community Renewal Tax Relief Act of 2000, as enacted into law by Section 1(a)(7) of H.R. 4577.

$35,000 more than in the current law); and the enhanced tax-exempt financing benefits presently available to Round II EZs.

Higher Limits on Tax-Exempt Empowerment Zone Facility Bonds. Local governments can issue these bonds (as a type of tax-exempt facility bond) to make loans at lower interest rates to Enterprise Zone Businesses to finance Qualified Zone Properties. The legislation provides also for non-recognition of gain on rollover of EZ investments and increased exclusion of gain on the sale of EZ stock.

Act Enhances Tax Incentives and Makes Other Significant Changes for Round I and Round II Zones. Under the Community Renewal Tax Relief Act, the designation of EZ status for Round I and II zones (other than the District of Columbia Enterprise Zone) is extended through December 31, 2009. In addition, the 20 percent wage credit is made available in all Round I and II zones for qualifying wages paid or incurred after December 31, 2001. The credit remains at 20 percent (rather than being phased down) through December 31, 2009, in Round I and Round II EZs.

Further, $35,000 (rather than $20,000) of additional section 179 expensing is available for qualified zone property placed in service in taxable years beginning after December 31, 2001, by a qualified business in any of the EZs. Businesses in the D.C. Enterprise Zone are entitled to the additional section 179 expensing until the termination of the D.C. Enterprise Zone designation.

Businesses located in Round I EZs (other than the D.C. Enterprise Zone) also are eligible for more generous tax-exempt bond rules that apply under present law to businesses in the Round II EZs. The legislation applies to tax-exempt bonds issued after December 31, 2001. Bonds that have been issued by businesses in Round I zones before January 1, 2002, are not taken into account in applying the limitations on the amount of new empowerment zone facility bonds that can be issue under the Act.

GAO Report. The Community Renewal Tax Relief Act provides that the General Accounting Office will audit and report to Congress on January 31, 2004, and again in 2007 and 2010, on the EZ/EC program and its effect on poverty, unemployment, and economic growth within the designated areas.

Additional Information

Official Web sites devoted to the EZ/EC program are maintained by HUD and USDA; their addresses are [http://www.hud.gov/offices/cpd/ezec/index.cfm] and [http://www.ezec.gov], respectively. They provide a wealth of information, including extensive background about the program, EZ/EC laws and regulations, maps, and listings and hypertext links to all the EZs and ECs.