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Report to Congressional Committees

March 2004

COMMUNITY DEVELOPMENT

Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited

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GAO-04-306

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Highlights

Highlights of GAO-04-306, a report to Congressional Committees

Why GAO Did This Study

Congress established the Empowerment Zone and Enterprise Community (EZ/EC) program in 1993 and the Renewal Community (RC) program in 2000 to provide assistance to the nation's distressed communities. To date, Congress has authorized three rounds of EZs, two rounds of ECs, and one round of RCs.

The Community Renewal Tax Relief Act of 2000 mandated that GAO audit and report in 2004, 2007, and 2010 on the EZ/EC and RC programs and their effect on poverty, unemployment, and economic growth. This report describes (1) the features of the EZ/EC and RC programs, (2) the extent to which the programs have been implemented, and (3) the methods used and results found in evaluations of their effectiveness.

What GAO Recommends

To facilitate the administration, audit, and evaluation of the EZ/EC and RC programs, we recommend that HUD, USDA, and IRS collaborate to (1) identify the data needed to assess the use of the tax benefits; (2) determine the cost-effectiveness of collecting these data; (3) document the findings of their analysis; and, if necessary, (4) seek the authority to collect the data, if a cost-effective means is available. HUD and IRS agreed with our recommendation, and USDA said such data could have marginal utility.

www.gao.gov/cgi-bin/getrpt?GAO-04-306.

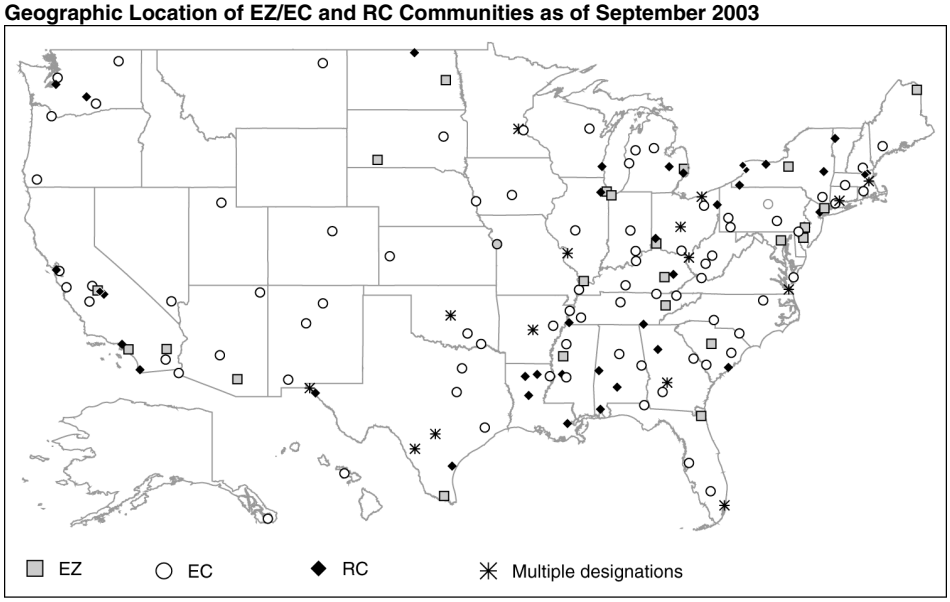
To view the full product, including the scope and methodology, click on the link above. For more information, contact William Shear, (202) 512-8678, ShearW@gao.gov.

What GAO Found

Both the EZ/EC and RC programs were designed to improve conditions in distressed American communities; however, the features of the programs have changed over time. Round I and II EZs and ECs received different combinations of grant funding and tax benefits, while Round III EZs and RCs received mainly tax benefits. To implement the programs, federal agencies have, among other things, designated participating communities and overseen the provision of program benefits. Since 1994, HUD and USDA have designated a total of 41 EZs and 115 ECs, and HUD has designated 40 RCs. Available data show that Round I and II EZs and ECs are continuing to access their grant funds and IRS data show that businesses are claiming some tax benefits. However, IRS does not collect data on other tax benefits and cannot always identify the communities in which they were used. Also, efforts by HUD to obtain these data by survey were limited to Round I designees, and EZ and RC officials have had difficulty obtaining such information directly from businesses. The lack of tax benefit data limits the ability of HUD and USDA to administer and evaluate the programs.

The few evaluations that systematically collected and analyzed data on EZ/EC program effectiveness used a variety of research methods to study different aspects of the program. The most comprehensive of these studies—the HUD Interim Assessment—found that employment of Round I EZ residents had increased from 1995 to 2000, that larger businesses were more likely to use tax benefits than smaller businesses, and that resident participation in EZ or EC governance has been uneven, among other things.

Geographic Location of EZ/EC and RC Communities as of September 2003



Sources: GAO analysis of HUD and USDA data.

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Abbreviations

EC	Enterprise Community
EZ	Empowerment Zone
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
RC	Renewal Community
USDA	U.S. Department of Agriculture

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United States General Accounting Office
Washington, DC 20548

March 5, 2004

The Honorable Charles E. Grassley
Chairman
The Honorable Max S. Baucus
Ranking Minority Member
Committee on Finance
United States Senate

The Honorable William M. Thomas
Chairman
The Honorable Charles B. Rangel
Ranking Minority Member
Committee on Ways and Means
House of Representatives

For decades the nation has faced the challenge of revitalizing its distressed urban and rural communities. To help such communities, the federal government provides assistance in the form of grants, tax benefits, loans, and loan guarantees involving more than 100 programs and billions of dollars. Within the past 11 years, Congress has created two new programs to help distressed communities—the Empowerment Zone and Enterprise Community (EZ/EC) program and the Renewal Community (RC) program. When it was enacted in 1993, the EZ/EC program provided grants to public and private entities for social services and community redevelopment and tax benefits to local businesses to attract or retain jobs and businesses in distressed communities. More recently, this program has provided mainly tax benefits. Since its enactment in 2000, the RC program has focused on providing tax benefits to businesses in designated communities to attract or retain jobs and businesses.

The Community Renewal Tax Relief Act of 2000, which created the RC program, also mandated that we audit and report in 2004, 2007, and 2010 on the EZ/EC and RC programs and their effect on poverty, unemployment, and economic growth. This report is the first in a series examining these programs. Specifically, this report describes (1) the features of the EZ/EC and RC programs, (2) the extent to which the programs have been implemented, and (3) the methods used and the results found in evaluations of the programs' effectiveness, especially in terms of poverty, unemployment, and economic growth in the participating communities.

To determine the features of each program, we reviewed statutes, regulations, and program documentation and interviewed agency personnel. To describe the implementation of these programs, we reviewed program documentation, financial data, and taxpayer data and interviewed agency personnel, community officials, and experts. To describe the methods used in and the results of evaluations, we identified relevant research by conducting several literature searches and interviewing agency personnel and community development experts. Our descriptions include analyses of data that have been and could be used to administer and evaluate the programs. However, we did not evaluate the effectiveness of the programs or their implementation in this report. We conducted our work between April 2003 and February 2004 in accordance with generally accepted government auditing standards. Appendix I provides additional details on our scope and methodology.

Background

The EZ/EC and RC programs target federal grant monies to public and private entities, tax benefits to businesses, or both in order to improve conditions in competitively selected, economically distressed communities. To be considered for these programs, areas must be nominated by one or more local governments and the state or states in which they are located.[1] Areas on Indian reservations must be nominated by the reservation's governing body.

Congress authorized the EZ/EC and RC programs under four separate acts of legislation (see table 1). To date, Congress has authorized the designation of three rounds of EZs, two rounds of ECs, and one round of RCs. See appendix II for a list of all designated communities.

[1]An area can also meet this nomination requirement if it is nominated by an economic development corporation chartered by the state.

Table 1: Summary of Legislation Authorizing the EZ/EC and RC Programs

Program	Title	Summary
Round I EZ/EC	Omnibus Budget Reconciliation Act of 1993	• Established the EZ/EC program and its package of grants and tax benefits. • Authorized six urban and three rural Round I EZs. • Authorized 65 urban and 30 rural Round I ECs. • Established the eligibility requirements and selection criteria for EZ/ECs.
Round II EZ/EC	Taxpayer Relief Act of 1997	• Authorized 5 rural and 15 urban Round II EZs. • Authorized two additional Round I EZs. • Changed the eligibility requirements for EZ/ECs. • Created the Washington, D.C. Enterprise Zone.[a]
	Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999	• Authorized up to 20 additional rural ECs.
Round III EZ and RC	Community Renewal Tax Relief Act of 2000	• Authorized two rural and seven urban Round III EZ designations. • Established the RC program and its package of tax benefits. • Authorized designation of 40 RCs, with 12 designations reserved for rural areas. Designation valid until December 31, 2009. • Made some additional tax benefits available to EZs. • Extended Round I and II EZ designations through December 31, 2009.[b]

Source: GAO summary of P.L. 103-66, P.L. 105-34, P.L. 105-277, and P.L. 106-554.

[a]The D.C. Enterprise Zone received a set of tax benefits that are similar to those of EZ/ECs, but are unique to this designation.

[b]The designation for all Round I ECs will expire as previously scheduled on December 31, 2004.

The Omnibus Budget Reconciliation Act of 1993 authorized the number of EZ/EC designations to be awarded in the first round of the program, as well as the benefits that the designated communities would receive. The legislation authorized the special use of $1 billion in Social Services Block Grant funds for the EZ/EC program.[2] It also established three tax benefits for businesses in the designated communities: (1) a tax credit for wages paid to employees who both live and work in an EZ, (2) an increased expensing deduction for depreciable property, and (3) tax-exempt bonds.[3]

[2]Social Services Block Grant funds, administered by the Department of Health and Human Services (HHS), have been available to state governments since 1981 to address the social service needs of their residents.

[3]Businesses in Round I ECs are eligible only for the tax-exempt bond benefit.

At the same time that the Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA) announced the Round I designations, HUD created two additional designations—Supplemental Empowerment Zones and Enhanced Enterprise Communities. Unlike EZs or ECs, these designations were not legislatively mandated. Rather, they were awarded to communities that had been nominated for but did not receive EZ designations.[4] HUD designated two communities as Supplemental Empowerment Zones and four communities as Enhanced Enterprise Communities. HUD provided these communities with certain grants and loan guarantees, which can be used for activities eligible under the Community Development Block Grant program.

The second round of EZ/EC designations and the benefits those designees would receive were authorized by two acts of legislation—the Taxpayer Relief Act of 1997 and the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999. However, neither act authorized block grant funding for Round II EZs and ECs. Instead, Round II EZs and ECs received annual appropriations through HUD and USDA appropriations bills each year from 1999 to 2004.

The Community Renewal Tax Relief Act of 2000 enhanced the tax benefits available to businesses in newly designated EZs and made these new tax benefits available to EZs that had been designated in previous rounds, but not to ECs. The legislation also did not make any appropriations or grant funds available to Round III EZs or to RCs. However, in January 2004, the Consolidated Appropriations Act of 2004 appropriated a total of $994,100 to Round III rural EZs. This legislation did not make any funding available to Round III urban EZs or RCs.

Four federal agencies are responsible for administering the programs:

- HUD oversees the EZ/EC program in urban areas, administers the grants to Round II urban EZs, and oversees the RC program in both urban and rural areas.
- USDA oversees the EZ/EC program in rural areas and administers the grants to Round II rural EZ/ECs and Round III EZs.

[4]One Supplemental Empowerment Zone and all four Enhanced Enterprise Communities had also received Round I EC designations.

- The Department of Health and Human Services (HHS) administers the Social Services Block Grant funds to communities designated in Round I of the EZ/EC program.[5]

- The Internal Revenue Service (IRS) is responsible for administering the tax benefits available under the EZ/EC and RC programs.

Results in Brief

Although the EZ/EC and RC programs have similar goals and objectives, we found that the features differed among the EZ/EC rounds and between the EZ/EC and RC programs. First, administrative features varied under the different EZ/EC rounds and between the EZ/EC and RC programs. For example, an interagency Community Empowerment Board consisting of high ranking federal officials existed to facilitate interagency coordination in Rounds I and II of the EZ/EC program, but not in Round III, and a smaller Advisory Council appointed by the HUD Secretary and consisting of individuals from nonprofit and for-profit organizations advises HUD on the RC program. Second, eligibility requirements often differed among rounds and between the programs. For example, the poverty level required for eligibility decreased between EZ/EC rounds and between the EZ/EC program and the RC program. Third, the participants for the two programs were selected differently. For instance, EZ/EC nominees were judged on the effectiveness of their strategic plans and assurances that these plans would be carried out, while RC nominees were selected on the basis of the communities' poverty, unemployment, and income statistics. Finally, the benefits available to designees varied both by round and by program. EZs and ECs in the first two rounds of designation received different combinations of benefits, including grant funding and tax benefits, while Round III EZs and RCs received mainly tax benefits.

To implement the EZ/EC and RC programs at the national level, the federal agencies involved have carried out selection procedures; designated participating communities; provided program benefits, outreach, and technical assistance; and monitored community performance. Since 1994, over the course of three rounds HUD has designated 31 urban EZs and 65 urban ECs, and USDA has designated 10 rural EZs and 50 rural ECs.[6] In

[5]HHS does not participate in the administration of Rounds II and III of the EZ/EC program or in the RC program, because Congress only authorized these grants in Round I of the EZ/EC program.

[6]At the same time as Round I EZ/EC designations, HUD also designated two Supplemental Empowerment Zones and four Enhanced Enterprise Communities.

2002, HUD also designated 40 RCs—28 urban and 12 rural. In addition, several federal agencies have provided grant funding, tax benefits, and other program benefits. Data from HHS indicate that the 104 Round I EZ/EC designees have drawn down about 70 percent of their $1 billion in Social Services Block Grant funds, while HUD and USDA data show that the 40 Round II designees have drawn down about 40 percent of their $434 million in grant funds. IRS data showed that taxpayers claimed an estimated $251 million in EZ Employment Credits between 1995 and 2001. Over that same period of time, state and local governments issued about $315 million in tax-exempt facility bonds for the benefit of businesses in EZs and Round I ECs. However, IRS does not have data on the use of other benefits, such as the increased expensing deduction, the Commercial Revitalization Deduction, or the Nonrecognition of Gain on the Sale of EZ Assets. In addition, IRS does not collect data that would enable it to link the use of data for the employment credit to specific designated communities. Senior IRS officials indicated that they do not collect this information because, among other things, these tax benefits are not considered high risk since the amount claimed is small, compared with revenues collected from other tax provisions. The lack of data on the use of the tax benefits available to businesses in designated communities limits the ability of (1) HUD and USDA to administer the programs; (2) designated communities to attract additional resources; and (3) HUD, USDA, and others to audit or evaluate the programs.[7] We found that federal agencies had provided outreach and technical assistance to applicants and designees through training, conferences, written guidance, and Web sites. HUD and USDA have also established oversight procedures for participating communities that include online reporting systems to collect performance data. But recent GAO, HUD Inspector General (IG), and USDA IG reports have raised concerns about EZ/EC program oversight and the reliability of program performance data.

The few evaluations that systematically collected and analyzed data on EZ/EC program effectiveness used a number of research methods and reported results that varied, depending upon the aspect of the program studied.[8] None of the evaluations we reviewed assessed the effect of the program on poverty, although one assessed its effect on resident employment and three assessed its effect on aspects of economic growth

[7]HUD and USDA expect EZs, ECs, and RCs to use their designations to attract additional investment.

[8]None of the evaluations we reviewed analyzed the RC program.

in the designated communities. Those evaluations that have been conducted used a variety of research methods—including statistical analyses, surveys, and document reviews—to carry out their research. In some cases, the data available to researchers affected the methods they chose. For example, the most comprehensive of these evaluations—the HUD Interim Assessment—included a survey of businesses as a way to partly address a lack of data on the use of tax benefits.[9] The HUD Interim Assessment found, among other things, that employment of Round I EZ residents had increased from 1995 to 2000, that larger businesses were more likely to use tax benefits than smaller businesses, and that resident participation in EZ or EC governance had been uneven. As with all evaluations of community development programs, these evaluations were also subject to some limitations. In particular, the researchers faced challenges demonstrating what would have happened in the communities in the absence of the program.

This report contains a recommendation to facilitate the administration, audit, and evaluation of the EZ/EC and RC programs. We recommend that HUD, USDA, and IRS collaborate to (1) identify the data needed to assess the use of the tax benefits and the various means of collecting such data; (2) determine the cost-effectiveness of collecting these data, including the potential impact on taxpayers and other program participants; (3) document the findings of their analysis; and, if necessary, (4) seek the authority to collect the data, if a cost-effective means is available.

EZ/EC and RC Programs Share Similar Goals and Objectives, but Features Vary

Although the EZ/EC and RC programs have similar goals and objectives, several features of the programs vary within the EZ/EC program by round and between the EZ/EC and RC programs. The EZ/EC and RC programs share the goal of improving conditions in distressed communities by reducing unemployment and fostering investment in designated areas. However, certain administrative mechanisms, eligibility requirements, selection criteria, and benefits vary among EZ/EC rounds and between the EZ/EC and RC programs.

[9]Scott Hebert and others, *Interim Assessment of the Empowerment Zones and Enterprise Communities (EZ/EC) Program: A Progress Report*, prepared for U.S. Department of Housing and Urban Development (Washington, D.C.: November 2001).

EZ/EC and RC Programs Have Similar Goals and Objectives

Although the legislation that created the EZ/EC and RC programs does not explicitly state the goals for these programs, HUD's and USDA's performance plans suggest that the goals of the programs are similar. According to HUD's Annual Performance Plan for Fiscal Year 2004, the EZ/EC and RC programs are contained within its strategic goal to strengthen communities. Similarly, in its Fiscal Year 2004 Annual Performance Plan and Revised Plan for Fiscal Year 2003, USDA includes the EZ/EC program under the strategic goal to "support increased economic opportunities and improved quality of life in rural America."

HUD's and USDA's implementing regulations for the EZ/EC program include a statement of their "objective and purpose," each of which generally states that the EZ/EC program is intended to reduce unemployment and promote the revitalization of economically distressed areas. HUD's regulations implementing the RC program do not have an objective and purpose statement; however, HUD's guidance states that the RC program is intended "to foster investment in the designated areas, which are some of the most severely distressed and development-resistant areas in the Nation."[10] Further, HUD program officials have stated that they regard the RC program as pursuing the same objective and purpose as the EZ/EC program, but relying on different methods.

EZ/EC Program Rounds I and II and the RC Program Received Administrative Assistance

Certain features designed to help in the administration of the EZ/EC and RC programs varied by round in the EZ/EC program and between the EZ/EC and RC programs. To facilitate federal interagency coordination in the EZ/EC program, a 26-member Community Empowerment Board was established in 1993, with the U.S. Vice President as its chair and cabinet secretaries and other high-ranking federal officials as members. The board's function was to consult in the designation of Round I and II EZs and ECs and coordinate the various federal agency resources that EZs and ECs would use to implement their strategic plans. For example, the Community Empowerment Board encouraged other agencies to provide preference points to EZs and ECs in selection competitions for other federal programs. The Community Empowerment Board was disbanded prior to Round III of the EZ program.

[10]U.S. Department of Housing and Urban Development, "Renewal Communities: Urban and Rural Application Guide" (Washington, D.C.: 2001).

In 2000, the legislation creating the RC program established a seven-member Advisory Council on Community Renewal to advise the HUD Secretary on the selection of designees and the operation of the RC program. Unlike the Community Empowerment Board, the Advisory Council does not have federal interagency membership. Instead, the members of the Advisory Council include individuals from nonprofit and for-profit organizations who are appointed by the HUD Secretary. The legislation that created it required the Advisory Council to hold hearings "as appropriate," obtain data from federal agencies, and submit a report containing a detailed statement of the council's findings and conclusions and any recommendations to the HUD Secretary by September 30, 2003. HUD officials expect an interim report from the Advisory Council to be released sometime in February 2004 and the final report in October 2004.

The EZ/EC and RC Programs Have Had Different Eligibility Requirements

Communities nominated for EZ/EC or RC designations have been required to meet certain eligibility requirements based largely on the socioeconomic characteristics of the residents living in the nominated areas. Specifically, nominated census tracts have been required to meet statutory or regulatory requirements for (1) poverty in each census tract, (2) overall unemployment, (3) total population, (4) total area in square miles (in the case of the EZ/EC program), and (5) general distress.[11] In most cases, these requirements were based on 1990 census data. The levels required for eligibility differed by round, by program, and between urban and rural nominees. For example, the statutory requirements for poverty differed between Round I and subsequent rounds of the EZ/EC program, and between the EZ/EC program and the RC program. In the absence of statutory guidelines, HUD and USDA regulations defined other eligibility requirements differently (see table 2). For example, the requirements for unemployment differed between urban and rural nominees and between the EZ/EC program and the RC program.[12] The

[11]In Rounds II and III of the EZ/EC program, nominated communities located in Alaska or Hawaii could also use income criteria instead of criteria for poverty, size, and general distress.

[12]In the EZ/EC program, the legislation required that the nominated area have "pervasive" unemployment, but did not define this term. In its regulations, HUD defined unemployment as not less than the national average rate of unemployment in the 1990 census. In contrast, USDA specified that unemployment could be demonstrated by a combination of information on the unemployed, underemployed, discouraged workers, plant or military base closings, or "other relevant unemployment indicators," but did not specify the required level of unemployment. In Rounds II and III, the legislation also allowed nominees in rural areas to use outmigration criteria as an alternative to poverty criteria.

population requirements also differed between urban and rural nominees and by program. Finally, communities nominated for the EZ/EC program were required to meet area requirements, while RC nominees were not. [13]

Table 2: Some Eligibility Requirements Differ among Rounds of the EZ/EC Program and between the EZ/EC and RC Programs

	Urban EZ/EC		Rural EZ/EC		RC
	Round I	**Rounds II and III**	**Round I**	**Rounds II and III**	
Minimum required poverty level in nominated census tracts[a]	35% in 50% of tracts and 25% in 90% of tracts and 20% in all tracts[b]	25% in 90% of tracts and 20% in all tracts[b]	35% in 50% of tracts and 25% in 90% of tracts and 20% in all tracts[b]	25% in 90% of tracts and 20% in all tracts[b]	20% in all tracts[c]
Minimum required unemployment rate	6.3%[a,d]	6.3%[a,d]	No minimum specified; could be demonstrated by several different indicators		9.45%[a,e]
Required population[a]	Maximum: 200,000 or the greater of 50,000 or 10% of the population of the most populous city within the nominated area Minimum: None		Maximum: 30,000 Minimum: None	Maximum: 30,000 Minimum: None	Maximum: 200,000 Minimum: 4,000 if any portion is within a metro area, 1,000 otherwise[f]
Maximum required area[a]	20 square miles[g]	20 square miles, with up to 3 developable sites[g,h]	1,000 square miles[g]	1,000 square miles, with up to 3 developable sites[g,h]	None[i]

Source: GAO summary of P.L. 103-66, P.L. 105-34, P.L. 106-554, 24 C.F.R. 597, 24 C.F.R. 598, 24 C.F.R. 599, and 7 C.F.R. 25.

[a]Based on 1990 census data.

[b]In all rounds of the EZ/EC program, communities were not able to include census tracts containing central business districts in the nominated area unless those areas have a poverty level of 35 percent or greater. The authorizing legislation also established special requirements for nominated census tracts with low or no population.

[c]In urban areas, at least 70 percent of households must have incomes below 80 percent of local median.

[d]The 1990 national average unemployment rate was 6.3 percent. Evidence of especially severe economic conditions could also be used to meet the unemployment test.

[e]This number is 1.5 times the 1990 national unemployment rate.

[f]No population restriction exists if nominated area is entirely within an Indian reservation.

[g]Nominated communities may include up to three noncontiguous parcels.

[13]Also, while Round I EZ/EC nominees could not include any area on an Indian reservation, nominees for other rounds of the EZ/EC program and for the RC program could.

[h]A developable site is a parcel of land in a nominated area that may be developed for commercial or industrial purposes. The developable site can be no more than 2,000 acres and can be noncontiguous to other nominated areas.

[i]Although the legislation did not impose any maximum area requirements for the RC program, it did stipulate that the area boundary be continuous.

Nominated communities were also required to show conditions of general distress. Because the legislation did not define the term "general distress," HUD and USDA each provided communities with lists of potential indicators containing criteria that could be used to meet this requirement. HUD provided Round I urban EZs and ECs with a list of six indicators and communities in Rounds II and III of the EZ/EC program and the RC program with a list of 17 indicators.[14] USDA provided Round I, II, and III rural EZs and ECs with a list of 14 indicators.[15] For example, USDA's Round I list included indicators not included in HUD's Round I list, such as a below-average or declining per capita income, earnings per worker, per capita property tax base, and average years of school completed. USDA, in turn, did not include homelessness as an indicator of general distress, while HUD included homelessness.

As a part of the EZ/EC eligibility requirements, nominated communities were also required to submit a strategic plan. The strategic plan had to follow the four key principles of the EZ/EC program, which were established by HUD and USDA in their regulations:

- *Economic opportunity*—including job creation within the community; supporting entrepreneurship; small business expansion; and job training, job readiness, and job support services.
- *Sustainable community development*—advancing the creation of livable and vibrant communities through comprehensive approaches that coordinate economic, physical, environmental, community, and human development.
- *Community-based partnerships*—involving the participation of all segments of the community, including the political leadership, community groups, the private and nonprofit sectors, and individual citizens.

[14]24 C.F.R. 597.102(c), 24 C.F.R. 598.110(c), 24 C.F.R. 599.105(e)(2)(iii).

[15]7 C.F.R. 25.102(c).

- *Strategic vision for change*—coordinating a response to community needs in a comprehensive fashion and setting goals and performance measures.

HUD's and USDA's regulations implemented legislative requirements regarding community participation in the development of their strategic plans. Nominees were to obtain community input to identify their communities' needs and to develop plans for addressing them according to the four principles. Nominees were also required to describe the role citizens would play in the implementation of the plans.

To be eligible for the RC program, nominees were required to submit a "course of action," in which they committed to carry out four of six specific legislatively mandated activities:

- A reduction of tax rates or fees applying within the RC;
- An increase in the level of efficiency of local services within the RC;
- Certain crime reduction strategies;
- Actions to reduce, remove, simplify, or streamline governmental requirements applying within the RC;
- Involvement in economic development activities by private entities, organizations, neighborhood organizations, and community groups; and
- The gift or sale at below fair-market value of surplus real property in the RC held by state or local governments to neighborhood organizations, community development corporations, or private companies.

In addition, communities nominated for RC designation had to certify that they would meet four of five legislatively specified economic growth promotion requirements, such as repealing or reducing some occupational licensing requirements, zoning restrictions, permit requirements, or franchise and other business restrictions. The designees were also responsible for submitting plans within 6 months of designation for promoting the use of the tax benefits and for carrying out other state and local commitments. RCs were required to certify that they had solicited community input but not that community representatives had been involved in developing the course of action.

EZ/EC and RC Selection Criteria Differ

The selection criteria contained in the authorizing legislation for the EZ/EC and RC programs differed substantially. For the EZ/EC program, HUD and USDA were required to rank nominees based on the effectiveness of their strategic plans, the nominees' assurances that the plans would be implemented, and additional criteria specified by the respective Secretary.[16] In Round I of the EZ/EC program, the legislation also reserved designation for nominees with certain characteristics.[17] In contrast, the RC selection process did not require a review of the effectiveness of the planning documents, such as the course of action, that communities submitted to meet eligibility requirements. Instead, the legislation authorizing the program required HUD to select the highest average ranking nominees based on poverty, unemployment, and, in urban areas, income statistics. HUD was also required to consider the extent of crime in the area and whether the nominated area contained any tracts that were identified in one of our reports as being distressed.[18] For the first 20 designations, HUD was to give preference to existing EZs and ECs that had been nominated and met the eligibility requirements for designation as an RC; the remaining designations went to the next-highest scorers.

EZ, EC, and RC Benefits Differed by Round and by Program

As discussed earlier, the authorizing legislation provided EZ/EC and RC program participants with grants, tax benefits, or both. Over the course of the three rounds of the EZ/EC program, however, the amount of the grants available to EZs declined, and the number of tax benefits increased. In Rounds I and II, ECs received much smaller grant benefits than EZs. Businesses in Round I ECs were eligible for one tax benefit; however, businesses in Round II ECs were not eligible for any tax benefits. RCs did not receive grants, but businesses operating in RCs were eligible to receive tax benefits. In addition, HUD and USDA provided designated communities with other benefits. For example, HUD and USDA provided Round II EZ/ECs with grant funds from their annual appropriations. See

[16]The secretarial criteria used by HUD and USDA differed in each round of the EZ/EC program. For example, in Round I, HUD included geographic diversity. USDA also considered the diversity within and among the nominated areas in Round I, but did not limit it to the geographic diversity used in HUD regulations. In Round II, HUD removed the secretarial criteria used for Round I.

[17]It specified that one urban EZ be designated in an area where the most populous city had a population of 500,000 or less and that one urban EZ be designated in an area that included two states and had a combined population of 50,000 or less.

[18]U.S. General Accounting Office, *Community Development: Identification of Economically Distressed Areas*, RCED-98-158R (Washington, D.C.: May 12, 1998).

appendix III for a table summarizing the benefits provided to the designated communities.

Grants Were Available to Round I and II EZs/ECs and to Some Rural Round III EZs

Congress appropriated a total of $1 billion in Social Services Block Grants for the benefit of Round I EZs and ECs (see table 3). These funds were to be used to (1) prevent, reduce, or eliminate dependency; (2) achieve or maintain self-sufficiency; and (3) prevent neglect, abuse, or exploitation of children and adults. In addition, the legislation required that the funds be used to benefit EZ/EC residents and in accordance with designees' strategic plans. Like other Social Services Block Grant funds, those allotted for the EZ/EC program were granted to the states, which were given fiscal responsibility for them. The legislation authorizing the EZ/EC program requires that the states obligate these grants for specific EZ or EC community-based organizations in accordance with state laws and procedures and within 2 years of the date that HHS awarded the funds. These block grant funds remain available to finance qualified projects until December 21, 2004, after which time the grants are subject to state close-out procedures, and all amounts reported as unspent must be returned to the federal government.[19]

Table 3: Social Services Block Grant Funds Authorized for Round I EZs and ECs

Designation	Total amount of block grants authorized	Amount per designee
Round I urban EZs	$600 million	$100 million
Round I rural EZs	$120 million	$40 million
Round I ECs (urban and rural)	$280 million	$2.95 million
Total	**$1 billion**	

Source: P.L. 103-66 and GAO analysis.

As stated previously, HUD created the Supplemental Empowerment Zone and Enhanced Enterprise Community designations at the same time as the Round I EZ/EC designations. HUD awarded $300 million in Economic Development Initiative grants to the two Supplemental Empowerment Zones and four Enhanced Enterprise Communities (see table 4).[20] These

[19]According to an HHS official, HHS is currently establishing policies for granting extensions to EZs and ECs with unspent Social Services Block Grant funds.

[20]HUD awarded separate Economic Development Initiative grants to overlapping or adjacent government entities in the city and county of Los Angeles, California, and in Kansas City, Missouri and Kansas City, Kansas. As a result, HUD awarded Economic Development Initiative grants to eight government entities.

grants were designed to enhance the feasibility of certain economic development or revitalization projects by paying for certain project costs or providing additional security for loans that finance such projects. The government entities were required to use these grants in accordance with the community's strategic plan and Community Development Block Grant regulations.

Table 4: Economic Development Initiative Grants for Supplemental Empowerment Zones and Enhanced Enterprise Communities

Local government entity	Amount in allocated Economic Development Initiative grants
Supplemental Empowerment Zones	
Los Angeles, Calif. (city)	$100 million
Los Angeles, Calif. (county)	$25 million
Cleveland, Oh.	$87 million
Enhanced Enterprise Communities	
Boston, Mass.	$22 million
Oakland, Calif.	$22 million
Houston, Tex.	$22 million
Kansas City, Mo.	$14.2 million
Kansas City, Kans.	$7.8 million
Total	**$300 million**

Source: HUD.

Initially, the administration planned to provide the Round II EZ designees with the same level of funding as Round I designees. Instead, Round II EZ/EC designees received funding through annual appropriations for HUD and USDA in fiscal years 1999 through 2003 (see tables 5 and 6).[21] According to HUD's annual appropriations legislation, program grants for Round II urban designees are to be used in conjunction with economic development activities consistent with designees' strategic plans.[22] The

[21]The data in this report are as of September 30, 2003. However, in January 2004, the Consolidated Appropriations Act of 2004 appropriated an additional $14.9 million for Round II urban EZs and $11.6 million for Round II rural EZs and ECs.

[22]According to HUD officials, HUD is currently developing regulations that would clarify "economic development activities." In lieu of an explicit rule, HUD has advised Round II urban EZs that acceptable economic development activities include job creation and training, entrepreneurial activities, small business expansion, and job support services such as affordable child care and transportation services that would help zone residents gain employment in jobs that offer upward mobility.

USDA appropriations language did not impose these requirements on Round II rural designees; however, in March 2002, USDA issued regulations limiting the allowable uses of Round II grants to those for Round I EZ/EC Social Services Block Grants. Unlike Round I funds, which pass through a state agency, Round II EZs and ECs access their grants directly from HUD or USDA. In most cases, these funds are available to communities until expended.[23]

Table 5: HUD Appropriations for Round II Urban Designees, Fiscal Years 1999-2003 (Dollars in thousands)

Fiscal year	Total appropriations to Round II urban EZs	Appropriations per EZ
1999	$45,000	$3,000
2000	$55,000	$3,667
2001[a,b]	$184,593	$12,306
2002	$45,000	$3,000
2003[b]	$29,805	$1,987
Total	**$359,398**	**$23,960**

Source: P.L. 105-277, P.L. 106-74, P.L. 106-377, P.L. 106-554, P.L.107-73, P.L. 108-7, and GAO analysis.

[a]In fiscal year 2001, funds were appropriated in two separate pieces of legislation.

[b]Appropriations in these years were affected by rescissions.

[23]However, fiscal year 2003 appropriations for Round II urban EZs will remain available only until September 30, 2005.

Table 6: USDA Allocation of Appropriations for Round II Rural Designees, Fiscal Years 1999-2003 (Dollars in thousands)

Fiscal year	Total allocations to Round II rural EZs[a]	Allocation per EZ	Total allocations to Round II rural ECs[a]	Allocation per EC
1999	$10,000	$2,000	$5,000	$250
2000	$10,000	$2,000	$5,000	$250
2001[b]	$9,978	$1,996	$4,989	$249
2002	$9,978	$1,996	$4,989	$249
2003[b]	$9,913	$1,983	$4,957	$248
Total	**$49,869**	**$9,975**	**$24,935**	**$1,247**

Source: P.L. 105-277, P.L. 106-74, P.L. 106-377, P.L. 106-554, P.L. 107-73, P.L. 108-7, and GAO analysis.

[a]Only the fiscal year 1999 bill distinguished between appropriations to the rural EZs and rural ECs. For other years, Congress appropriated funds for the rural EZ/EC program, and USDA allocated the appropriations between the EZs and ECs.

[b]Appropriations in these years were affected by rescissions.

As of September 30, 2003, no direct funding was available for Round III EZs or RCs. However, the Consolidated Appropriations Act of 2004 appropriated $994,100 for Round III rural EZs.[24] It did not appropriate funding for Round III urban EZs or any RCs.

Tax Benefits Have Increased Since the EZ/EC Program Began

Businesses operating in or employing residents of EZs and RCs are eligible for a number of federal tax benefits designed to encourage business investment (see table 7). Businesses operating in ECs are generally ineligible for the tax benefits, although state and local governments can issue tax-exempt bonds for businesses in Round I ECs. Since the initial legislation authorizing the EZ/EC program, the number of federal tax benefits has grown.[25] For example, businesses operating in Round I EZs were originally eligible for three tax benefits: (1) a credit for wages paid to employees who both live and work in an EZ, (2) an increased expensing

[24]P.L. 108-199. We did not include these funds in our analysis because the data in this report are as of September 30, 2003.

[25]In 1993, the Joint Committee on Taxation estimated that the tax benefits available to businesses in Round I communities would result in a $2.5 billion reduction in tax revenues between 1994 and 1998. In 2000, this committee estimated that the EZ and RC tax benefits contained in the Community Renewal Tax Relief Act of 2000 would reduce tax revenues by a total of about $3.9 billion between 2001 and 2005, and about $10.9 billion between 2001 and 2010.

deduction for depreciable property, and (3) tax-exempt bonds.[26] By 2002, businesses operating in EZs were eligible for several additional tax benefits, including capital gains exclusions, and more generous tax-exempt bond and expensing provisions. In addition to some of the same tax benefits available in EZs, businesses operating in RCs were also eligible for a deduction on commercial property and a different type of capital gains exclusion. These benefits are generally available until 2009, when the EZ and RC designations expire.

Table 7: Federal Tax Benefits Specifically Available to Businesses Operating in EZs, ECs, and RCs

Tax benefit	Effective year	Expiration year	Applicable zones	Provisions
EZ Employment Credit	1994[a]	2009	EZs	Businesses can claim a 20-percent credit on the first $15,000 paid in wages to EZ residents who perform substantially all of their work in the EZ.
Increased Section 179 Deduction	1994	2009	EZs and RCs	Qualified businesses can deduct $35,000 more than the maximum allowable deduction under section 179 of the Internal Revenue Code for certain qualifying property in the year the property was placed in service.[b]
Enterprise Zone Facility Bonds	1994	2009[c]	EZs and Round I ECs	State and local governments can issue tax-exempt bonds to provide loans to qualified businesses to finance certain property. A business cannot receive more than $3 million in bond proceeds for activities in any EZ or Round I EC or more than $20 million for activities in all EZs and Round I ECs nationwide. These bonds are also subject to state volume caps, which limit the amount of tax-exempt debt that state and local government entities can issue.
EZ Facility Bonds	1998[d]	2009	EZs[e]	State and local governments can issue tax-exempt bonds to provide loans to qualified businesses to finance certain property.[f] State and local government entities can issue up to $60 million for each rural EZ, $130 million for each urban EZ with a population of less than 100,000, and $230 million for each urban EZ with a population greater than or equal to 100,000. These bonds are not subject to state volume caps.
Nonrecognition of Gains on the Sale of EZ Assets	2000[g]	2009	EZs	Taxpayers that incur capital gains on the sale of qualified assets may elect to postpone those gains from tax liability if they purchase a replacement asset within 60 days.

[26]A deduction for depreciable property reduces a taxpayer's taxable income for assets that could be used for over 1 year.

Tax benefit	Effective year	Expiration year	Applicable zones	Provisions
Partial Exclusion of Gain on the Sale of EZ Stock	2000[h]	2009	EZs	Taxpayers that hold stock for more than 5 years in corporations with assets under $50 million incur a tax liability on only 40 percent of their capital gains, provided the company offering the stock is a qualified zone business.
RC Employment Credit	2002	2009	RCs	Businesses can claim a 15-percent credit on the first $10,000 paid in wages to RC residents who perform substantially all of their work in the RC.
Commercial Revitalization Deduction	2002	2009	RCs	Businesses that receive an allocation from an agency authorized by the state for costs associated with new construction or renovation of nonresidential commercial property can either deduct half of the qualifying expense for the year in which a building is placed in service or amortize all of the expenses over a 10-year period.
Zero Percent Capital Gains Rate for RC Assets	2002[i]	2009	RCs	Investments in qualified RC businesses purchased after 2001 and before 2010 and held for more than 5 years are not subject to tax liability on capital gains.

Source: GAO summary of HUD and IRS publications; P.L. 103-66, P.L. 105-34, P.L. 105-277, and P.L. 106-554.

[a]Businesses in Round II EZs did not become eligible until 2002.

[b]The term "placed in service" indicates the year in which the business began using the property for which it is claiming the deduction. Between 1994 and 2001, businesses could deduct $20,000 more than the maximum allowable section 179 deduction.

[c]State and local governments can issue these bonds for the benefit of EZs through 2009. However, these bonds can be issued for the benefit of Round I ECs only through 2004.

[d]State and local governments could issue these bonds for qualified EZs beginning in December 1998, the month of Round II designation. However, no EZ Facility Bonds were issued until 1999.

[e]Businesses in Round I EZs did not become eligible until 2002.

[f]Purchasers of tax-exempt bonds incur no federal tax liability on interest income.

[g]Taxpayers have to purchase the asset after December 21, 2000, and before 2010 and hold it for more than a year to be eligible for this benefit.

[h]Taxpayers have to make the investment after December 21, 2000, and before 2010 and hold it for more than 5 years to be eligible for this benefit.

[i]Taxpayers have to make the investment after 2001 and before 2010 and hold it for more than 5 years to be eligible for this benefit.

Taxpayers Can Claim Other Benefits Not Specific to Federal Designations

Taxpayers operating businesses in or employing residents of EZs, ECs, or RCs can also claim other tax benefits not specific to the federal designations. Some federal tax benefits are aimed at businesses that operate or invest in a distressed community or that employ or provide housing for low-income persons. For example, certain banks, insurance companies, and corporations that lend money may purchase Qualified Zone Academy Bonds, which raise funds for public schools located in low-

income areas, such as those located in EZs or ECs. Purchasers of these bonds receive a tax credit in lieu of interest payments. (See app. IV for examples of federal tax benefits aimed at distressed communities and low-income individuals.) In addition to the federal tax benefits, businesses operating in federally designated EZs, ECs, and RCs may also be eligible for tax benefits from the state when a federal designation overlaps with a state-designated Enterprise Zone. While the specific tax benefits provided to businesses operating in state Enterprise Zones vary from state to state, they can include credits on state taxes against withholdings, property tax reductions, and sales tax exemptions.

Other Benefits Were Also Available to Certain Designees

In addition to grant monies and tax benefits, certain designees have also been eligible for other benefits. In Round I of the EZ/EC program, HUD and USDA guidance invited nominees to request, as an addendum to their applications, waivers from federal programmatic, statutory, or regulatory requirements to facilitate their ability to conduct revitalization efforts. Also, communities designated by HUD as Supplemental Empowerment Zones or Enhanced Enterprise Communities were provided with a total of $653 million in Section 108 Loan Guarantees to provide security for loans that finance economic development and revitalization projects.[27] Finally, HUD and USDA expect EZs, ECs, and RCs to use their designations to attract additional investment. In some cases, EZ, EC, and RC designees were provided with a competitive priority in other federal programs to help them meet this expectation. Appendix V provides details on these benefits.

The EZ/EC and RC Programs Are Well Under Way, but Data on the Use of Some Benefits Are Limited

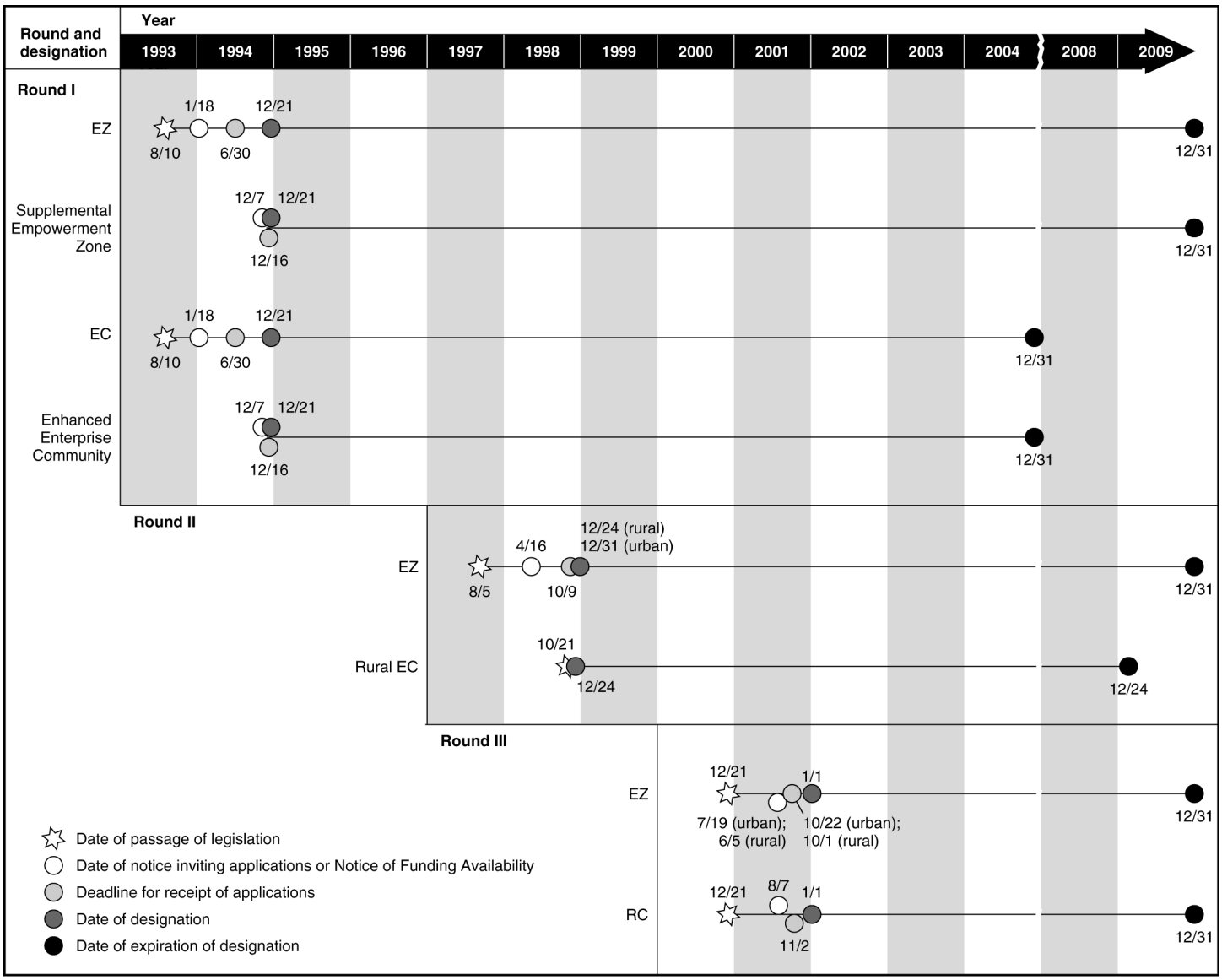
To date, the federal agencies have selected three rounds of EZs, two rounds of ECs, and one round of RCs; provided program benefits, outreach, and technical assistance; and established oversight procedures. Available data indicate that community organizations and businesses are using the program benefits; however, certain limitations with tax benefit data will, among other things, make it difficult to audit or evaluate the programs and limit the ability of designated communities to report on their activities.

[27]A Section 108 Loan Guarantee allows local governments to obtain loans for economic development projects that (1) benefit low and moderate income families, (2) prevent or eliminate slums or blight, or (3) meet other urgent community development needs.

HUD and USDA Have Selected Communities for the EZ/EC and RC Programs

HUD and USDA have implemented three rounds of selection for the EZ/EC program, and HUD has implemented one round of selection for the RC program. Following the authorizing legislation for each round, HUD and USDA released interim rules for designation and formally invited community nominations through a notice inviting applications or notice of funding availability. Figure 1 shows a timeline of the selection process for each of the programs.

Figure 1: Timeline of Events in the Selection of EZ/EC and RC Program Participants



Sources: GAO analysis of P.L. 103-66, P.L. 105-34, P.L. 105-277, P.L. 106-554, and HUD and USDA program documents.

The implementation of the selection process varied by round of the EZ/EC program and between the EZ/EC and RC programs. In Round I of the EZ/EC program, HUD and USDA used several interagency review teams to rank nominees based on their strategic plans' effectiveness and alignment with the program's four principles. As a part of their review of nominees

for Rounds II and III of the EZ/EC program, the interagency review teams assigned point values based on the quality of various characteristics of the nominees' strategic plans. In Rounds I and II, nominees that had applied for an EZ designation but had not been chosen were added to the list of eligible nominations for EC designations.[28] For the RC program, HUD used a statistical formula that was based on the eligibility criteria to identify the eligible nominees with the highest scores. Figure 2 shows the geographic locations of the designated communities by round.

[28]Rural nominees that did not receive EZ or EC status from USDA were offered Champion Community status. Champion communities are eligible for technical assistance from USDA and preferences for other government programs. There are currently 118 Champion Communities.

Figure 2: Geographic Distribution of Designees By Round

Sources: GAO analysis of HUD and USDA data.

Communities that had received designations in prior rounds of the EZ/EC program were permitted to apply for subsequent rounds. Within the EZ/EC program, communities that had received EC designations in Rounds I and

II were permitted to apply for EZ status in subsequent rounds.[29] If an EC was chosen to receive an EZ designation, it maintained both designations, along with the associated benefits. The five Round I ECs that also received Enhanced Enterprise Community or Supplemental Empowerment Zone designations maintained their EC status as well. In addition, ECs and EZs were encouraged to apply for RC designations. However, in contrast to the EZ program, the authorizing legislation for the RC program required that the communities forfeit prior designations when they received RC designation.[30] Table 8 provides more information on the number of nominations, communities selected in each round, and the number of designations retained as of September 30, 2003. Figure 3 shows the geographic locations of the designated communities by designation status as of September 30, 2003.

Table 8: Number of EZ/EC and RC Nominations and Designations

	Number of communities nominated[a]	Number of nominations selected for designation	Number of designations as of September 30, 2003
Urban			
Round I EZ	74[b]	8[c]	7[c, d]
Round I EC	219	65	49[d]
Round I Supplemental Empowerment Zones	Not applicable	2	2
Round I Enhanced Enterprise Communities	Not applicable	4	4
Round II EZ	119	15	15
Enterprise Zone	Not applicable[e]	1	1
Round III EZ	36	8[f]	8
RC	62	28	28
Rural			
Round I EZ	88[b]	3	3
Round I EC	139	30	28[d]

[29]Enhanced Enterprise Communities were also permitted to apply for EZ status. One Enhanced Enterprise Community, Boston, Mass., received an EZ designation.

[30]One exception occurred, in which an EC dissociated itself from the part of its area that had applied for RC status prior to that area receiving designation.

	Number of communities nominated[a]	Number of nominations selected for designation	Number of designations as of September 30, 2003
Round II EZ	160	5	5
Round II EC	Not applicable[g]	20	20
Round III EZ	55	2	2
RC	41	12	12
Total	**993**	**203**	**184[h]**

Source: HUD and USDA program documents.

[a]Communities not selected in earlier rounds could apply for subsequent rounds.

[b]Nominations for Round I EZs that did not receive an EZ designation were added to the list of eligible nominations for ECs. Some ECs that were designated had originally been nominated for EZ designation.

[c]Six urban communities originally received EZ status in Round I, and the two Supplemental Empowerment Zones were later given full Round I EZ status.

[d]One urban Round I EZ and 16 urban and 2 rural Round I ECs lost their prior EZ or EC designations when part or all of the former community area received RC designation.

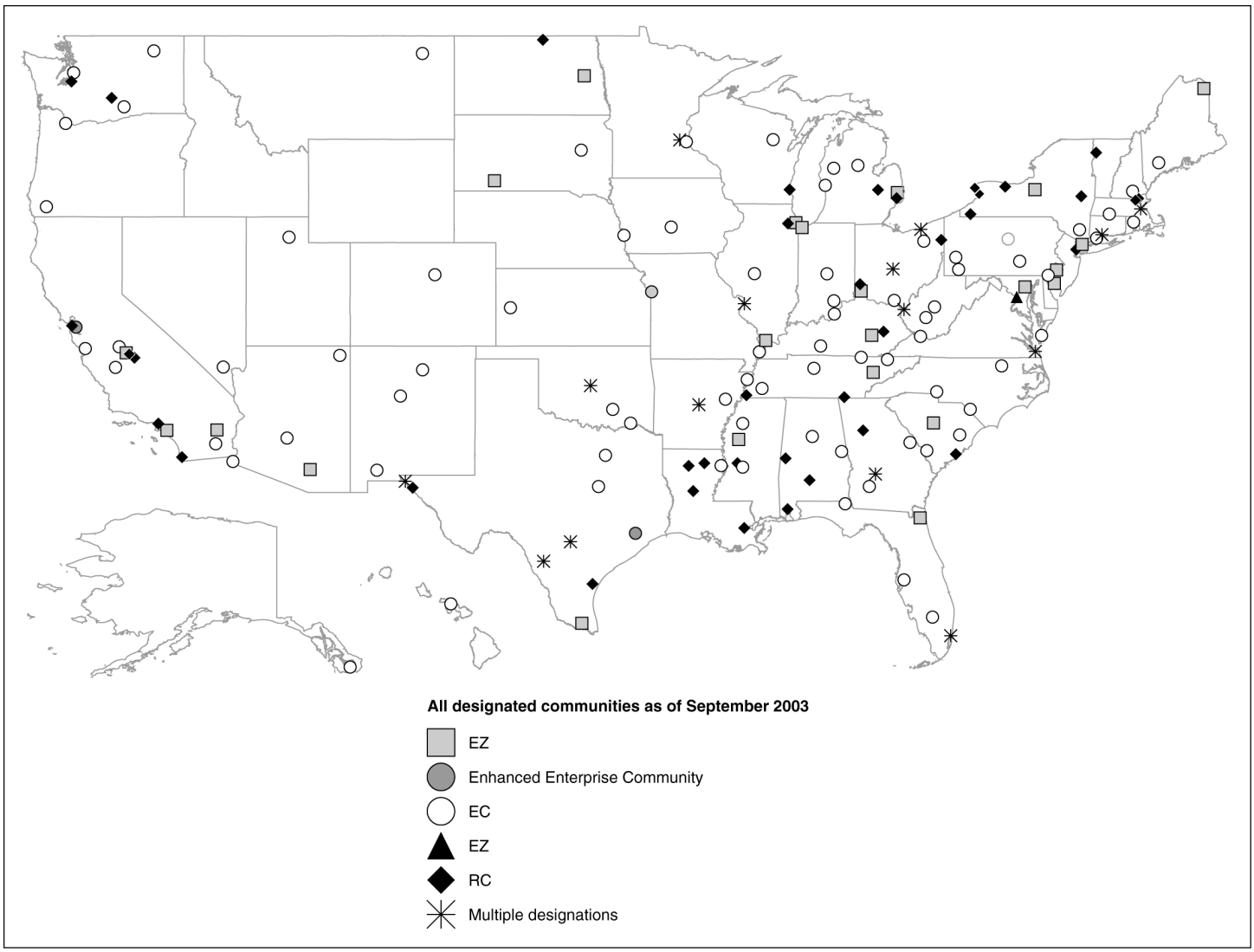
[e]The Washington, D.C. Enterprise Zone designation was awarded directly by the Taxpayer Relief Act of 1997.

[f]The legislation authorizing the third round of the EZ program authorized seven urban EZs. When the Atlanta EZ became an RC, HUD used its statutory authority to designate an additional Round III EZ.

[g]Selection of ECs made out of the pool of 160 nominations for Round II rural EZ designation.

[h]This figure represents the number of designations that are maintained as of September 30, 2003. Because communities did not lose prior designations when they subsequently received EZ, Supplemental Empowerment Zone, Enhanced Enterprise Community, or Enterprise Zone designations, 19 communities are counted more than once in this total.

Figure 3: Geographic Location of All Designated Communities as of September 30, 2003



Sources: GAO analysis of HUD and USDA data.

The average characteristics of the designated geographic areas in the three rounds of the EZ/EC program and the RC program had slightly different poverty and unemployment levels, but their average population, area, and population density statistics differed more greatly. As noted earlier, with some exceptions, nominees were directed to use 1990 census data to qualify for poverty, unemployment, population, and area criteria; however, the levels required for eligibility varied among rounds of the EZ/EC program and between the EZ/EC program and RC program. According to

1990 census data, a total of about 8 million people lived in EZs, ECs, and RCs. Among urban EZs, each round had somewhat lower average percentages of poverty, but similar percentages of unemployed.[31] The poverty and unemployment rates of rural EZs were relatively constant, although unemployment was higher in Round I. ECs did not vary greatly between rounds in terms of poverty and unemployment. The RCs' average percentages in poverty and unemployed are comparable to those of EZ designees in rounds II or III. However, the average population of the rural communities designated as RCs was much higher than that of rural EZs or ECs, and the average population for urban communities was highest in Round I EZs and in RCs. The average area of the communities varied among the rounds and between the two programs. The population density for urban communities remained much higher than that of rural communities, with urban communities ranging from about 4,000 persons per square mile to over 10,000 persons per square mile and rural communities ranging from less than 10 persons per square mile to about 45 persons per square mile. Figure 4 shows the average characteristics of the communities by designation, round, and urban or rural location.

[31]Census poverty and unemployment data are estimates based on a sample of the population. All poverty and unemployment percentage estimates have 95 percent confidence intervals of plus or minus 1.2 percentage points or less. See appendix I for details.

Figure 4: Variation in Average Characteristics of EZs, ECs, and RCs (Based on 1990 census data)

Designation	Round	Average percent in poverty[a]	Average percent unemployed[b]	Average community population	Average area (sq. miles)	Average population density (individuals per sq. mile)
EZ	I	Rural 44.75 Urban 45.23	Rural 13.05 Urban 20.75	Rural 28,845 Urban 117,505	654.0 10.6	44.1 11,075.4
	II	Rural 35.60 Urban 42.84	Rural 12.26 Urban 15.40	Rural 16,801 Urban 47,360	2,082.2[c] 10.2	8.1 4,648.5
	III	Rural 31.02 Urban 42.92	Rural 13.37 Urban 15.36	Rural 29,199 Urban 50,921	840.7[c] 13.2	34.7 3,860.4
EC	I	Rural 35.79 Urban 41.12	Rural 13.12 Urban 15.73	Rural 19,858 Urban 45,716	528.6 10.1	37.6 4,548.4
	II	Rural 37.67	Rural 15.39	Rural 16,246	1,546.8[c]	10.5
RC	III	Rural 38.23 Urban 41.33	Rural 13.57 Urban 18.62	Rural 88,650 Urban 69,485	2,704.6 12.7	32.8 5,482.2

Rural
Urban

Sources: GAO analysis of HUD, USDA, and Census Bureau data.

Note: All poverty and unemployment percentage estimates have 95 percent confidence intervals of plus or minus 1.2 percentage points or less. See appendix I for the confidence intervals for each estimate. Round I EZ averages include the Supplemental Empowerment Zone data, and Round I EC averages include the Enhanced Enterprise Community data.

[a]Percent based on individuals for whom poverty status has been determined.

[b]Percent based on individuals 16 years of age and older.

[c]The actual area of these communities could be smaller, because areas nominated for Round II and III rural EZ/ECs were not required to adhere to census tract boundaries if they were wholly within an Indian reservation and could exclude land owned by federal, state, or local governments from their calculation of the maximum area requirement.

Designees Are Drawing Down Grant Funds

As of September 30, 2003, (1) state agencies had drawn down about 71 percent of the Social Services Block Grants authorized for the EZ/EC program, (2) the eight local government entities that received Economic Development Initiative grants as part of the Supplemental Empowerment Zone and Enhanced Enterprise Community designations had drawn down about 55 percent of the $300 million in Economic Development Initiative

funds that HUD had awarded, and (3) Round II EZs and ECs had drawn down 42 percent in HUD and USDA program grants appropriated between fiscal years 1999 and 2003 (see table 9).[32]

Table 9: Amount of Grant Funds Awarded and Drawn Down, as of September 30, 2003 (Dollars in thousands)

		Type of funds awarded	Amount awarded	Amount drawn down	% Drawn down
Round I	Urban EZs	Social Services Block Grants	$600,000	$362,737	60.5%
	Rural EZs	Social Services Block Grants	$120,00	$95,521	79.6%
	Urban ECs	Social Services Block Grants	$191,579	$172,663	90.1%
	Rural ECs	Social Services Block Grants	$88,421	$80,575	91.1%
	Total		**$1,000,000**	**$711,496**	**71.1%**
	Supplemental Empowerment Zones[a]	Economic Development Initiative Grants	$212,000	$122,267	57.7%
	Enhanced Enterprise Communities[b]	Economic Development Initiative Grants	$88,000	$41,613	47.3%
	Total		**$300,000**	**$163,880**	**54.6%**
Round II	Urban EZs	HUD Appropriations	$359,398	$155,293	43.2%
	Rural EZs	USDA Appropriations	$49,869	$18,169	36.4%
	Rural ECs	USDA Appropriations	$24,935	$9,084	36.4%
	Total		**$434,202**	**$182,546**	**42.0%**

Source: GAO analysis of HUD, USDA, and HHS data.

[a]Three government entities received these grants as part of the Supplemental Empowerment Zone designations.

[b]Five government entities received these grants as part of Enhanced Enterprise Community designations. Only one local government entity, Kansas City, Kansas, has drawn down all of its awarded Economic Development Initiative funds.

Little Information Is Available on the Use of Some EZ- and RC-Specific Tax Benefits

IRS maintains two principal sources of tax data. The first is an electronic master file system, which includes a business master file and an individual master file, each of which contains selected line-item data from business and individual tax filings. In addition, IRS's Statistics of Income Division maintains a second set of data files that are generally based on a sample of tax returns.[33] IRS maintains selected information on the EZ/EC and RC

[32]A "draw down" occurs when a grantee accesses awarded funds.

[33]While IRS's Statistics of Income Division maintains data on the use of the EZ Employment Credit for all corporate tax returns from 1998 through 2000, it maintains sampled data on this tax credit from individual returns from 1995 through 2001 and from corporate returns from 1995 through 1997 and for 2001.

programs' tax benefits in the master file data sets for tax years 1996 through 2002 and the Statistics of Income data set for tax years 1994 through 2001.[34] In addition, the contractor preparing the HUD Interim Assessment performed a survey of businesses to determine their use of tax incentives, but these findings are limited to Round I designees.[35]

IRS Collects Some Data on the EZ and RC Employment Credit, but Limitations Exist

Currently, IRS can report on the use of the EZ Employment Credit at the national level. The most readily available IRS data from the Statistics of Income Division indicate that taxpayers are making some use of this credit. Nationally, corporations and individuals claimed an estimated total of $251 million in EZ Employment Credits between 1995 and 2001 (see figs. 5 and 6).[36]

Figure 5: Corporate Returns with EZ Employment Credit

	Number of corporate returns with EZ Employment Credits	EZ Employment Credits claimed by corporations (Dollars in thousands)
1995	193	$7,409
1996	464	$9,382
1997	630	$13,223
1998	402	$19,118
1999	420	$21,645
2000	479	$23,527
2001	559	$23,401

Source: GAO analysis of IRS data.

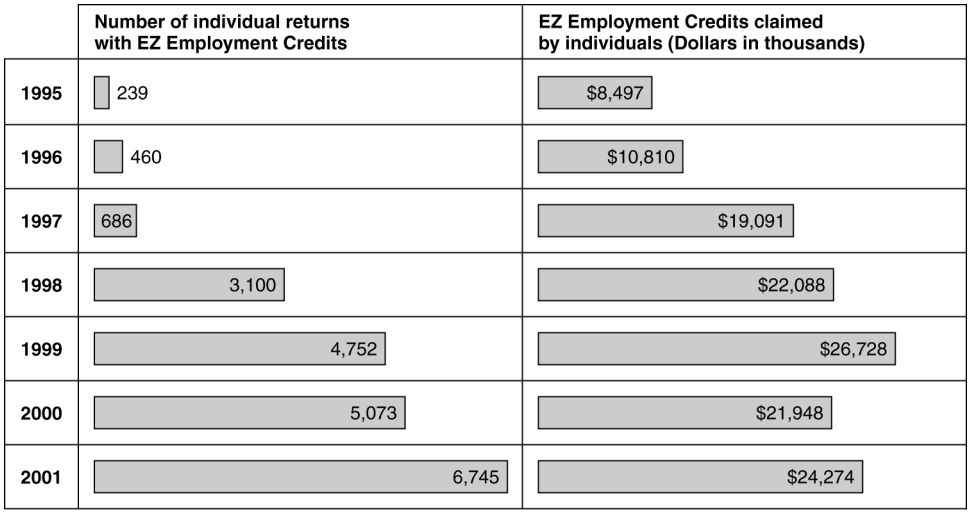
[34]Because it is not possible to compute a reliable estimate for 1994 returns, we are reporting only on the years from 1995 through 2001.

[35]See Hebert and others, *Interim Assessment*.

[36]With the exception of 1998 through 2000 corporate data, this number is based on sampled data. We calculated the 95 percent confidence interval for the total EZ Employment Credits claimed at between $224 million and $278 million. The 95 percent confidence intervals for all estimates are included in appendix I.

Note: This figure includes employment credits claimed in the D.C. Enterprise Zone. However, data do not include credits claimed against the Alternative Minimum Tax or credits claimed by regulated investment companies, real estate investment trusts, or S corporations. Data from 1995 through 1997 and for 2001 are estimates based on a sample of tax returns. The 95 percent confidence intervals for these estimates can be large, sometimes exceeding +/- 50 percent. See appendix I for these values. 1998 through 2000 data are based on the population of returns.

Figure 6: Individual Returns with EZ Employment Credit



Source: GAO analysis of IRS data.

Note: This figure includes employment credits claimed in the D.C. Enterprise Zone. However, data do not include credits claimed against the Alternative Minimum Tax. Data from individual tax returns are based on a sample. The 95 percent confidence intervals for these estimates can be large, sometimes exceeding +/- 50 percent. See appendix I for these values.

Businesses were able to begin claiming the RC Employment Credit in 2002, using the same form they use to claim the EZ Employment Credit. IRS will be able to report on taxpayers' use of the RC Employment Credit when some data becomes available in mid-2004.[37] However, because the same line is used to record the amount claimed for both the RC Employment Credit and the EZ Employment Credit, IRS will not be able to distinguish between the amount claimed for RC Employment Credits and the amount claimed in EZ Employment Credits.

In addition, according to IRS officials, the agency cannot reliably link businesses claiming the employment credit with specific EZs or RCs due

[37]The 2002 data from individual taxpayers will be available in mid-2004. The 2002 data from corporate taxpayers will be available in 2005.

to two factors. First, according to IRS officials the addresses business owners list on tax forms do not necessarily correspond with the location of their business operations, but may be a residence or the address where the business is incorporated. Second, the IRS form used to claim the EZ and RC Employment Credits does not require the taxpayer to identify the EZ(s) or RC(s) where the business operations eligible for the credit are located.

To identify the amount of employment credits claimed by businesses in specific EZs or RCs, taxpayers would have to identify the EZs or RCs where they had business operations. One way to collect this information would be for IRS to amend its form to request additional information. Senior IRS officials cited several reasons why amending its tax forms is not a high priority for the agency. First, they said that IRS's role is to administer tax laws, and that collecting more comprehensive data on the use of these benefits does not help the agency to acheive this objective. Second, the officials indicated that requesting taxpayers to provide more information would add to taxpayer burden and IRS workload. Third, IRS officials told us that they allocate their resources based on the potential effect of abuse on federal revenue and noted that these tax benefits are not considered high risk, since the amount claimed is small compared with revenues collected from other tax provisions or the amount of potential losses from abusive tax schemes.

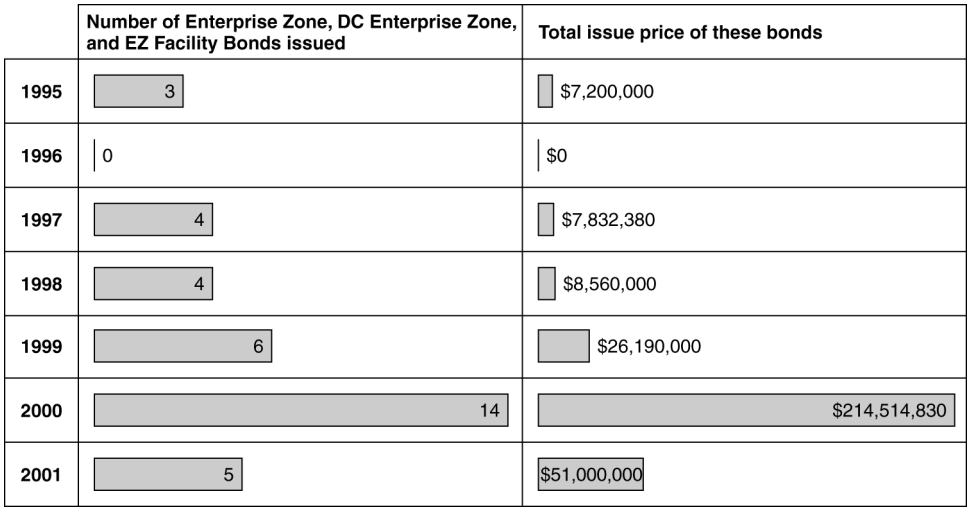
National Use of Tax-Exempt Bonds Has Grown

Between 1995 and 2001, state and local governments issued a total of 36 different series of tax-exempt bonds with an aggregate issue price of $315 million explicitly for the benefit of businesses operating in EZs and Round I ECs, as well as the D.C. Enterprise Zone.[38] Figure 7 shows the number and aggregate issue price of tax-exempt bonds issued for the benefit of businesses operating in these communities between fiscal years 1995 and 2001.[39] The dramatic increase in the amount of bonds issued since 1999 can be attributed to the issuance of EZ Facility Bonds, which are not subject to state volume caps and can be issued for generally larger amounts than the original Enterprise Zone Facility Bonds, and the issuance of D.C. Enterprise Zone Facility Bonds.

[38]D.C. Enterprise Zone Facility Bonds are subject to a $15 million per borrower limit and are subject to the state volume cap. These bonds became available in 1998.

[39]This figure includes bonds issued to refund previously issued debt.

Figure 7: Number and Amount of Enterprise Zone, D.C. Enterprise Zone, and EZ Facility Bonds Issued 1995 through 2001



Source: GAO analysis of IRS data.

Note: These figures include bonds issued to refund previously issued debt. These figures represent the issue price of these bonds, not the actual savings to businesses in EZs or ECs. These bonds were issued to provide loans to businesses at a lower interest rate than through conventional financing arrangements. Bond purchasers are willing to accept a lower interest rate because the interest income is not subject to federal income taxes. The actual savings to businesses in EZs or ECs are the lower interest rates at which they repay their loans.

Amount of Other Tax Benefits Claimed by EZs and RCs Is Unknown

IRS cannot report on the extent to which businesses operating in an EZ or RC are claiming the increased expensing deduction, the Commercial Revitalization Deduction, or the Nonrecognition of Gain on the Sale of EZ Assets, because taxpayers do not report these benefits as separate items on their returns. In addition, two benefits, the Zero Percent Capital Gains Rate for RC Assets and the Partial Exclusion of Gain on the Sale of EZ Stock cannot be claimed until 2007 and 2005, respectively. Table 10 provides a summary of the data available on all nine tax benefits.

Table 10: Limitations with Data on EZ, EC, and RC Tax Benefits

Tax benefit	Does IRS have national level data?	Can IRS reliably link data to a designated community?
EZ Employment Credit	Yes[a]	No[e]
RC Employment Credit	Yes[b]	No[e]
Enterprise Zone Facility Bonds	Yes	No[f]
EZ Facility Bonds	Yes	No[f]
Increased Section 179 Deduction	No	Not applicable
Commercial Revitalization Deduction	No	Not applicable
Zero Percent Capital Gains Rate for RC Assets	No[c]	Not applicable
Nonrecognition of Gains on the Sale of EZ Assets	No	Not applicable
Partial Exclusion of Gain on the Sale of EZ Stock	No[d]	Not applicable

Source: GAO analysis.

[a]Some Statistics of Income data are based on statistical samples and may not accurately represent the population of filers. For tax years after 2001, IRS data cannot distinguish between this benefit and the RC Employment Credit.

[b]The first Statistics of Income data will become available in 2004 when the 2002 individual return data become available. However, IRS will not be able to distinguish between taxpayers claiming this credit and the EZ Employment Credit.

[c]This benefit cannot be claimed until 2007.

[d]This benefit cannot be claimed until 2005.

[e]Taxpayers do not identify the EZ or RC where the business operations are located.

[f]IRS collects data on tax-exempt bonds issued by state and local governments. However, if a city or state government entity with more than one EZ/EC located in its jurisdiction issues these bonds, IRS data cannot identify which EZ or EC benefited from the bond issue.

Lack of Data Limits Ability to Determine Use of Tax Benefits in Individual EZs and RCs

The lack of data on the use of some of the tax benefits available to businesses in EZs and RCs limits the ability of HUD and USDA to administer the programs. For example, HUD requires EZs and RCs to report on the extent to which businesses are using certain tax benefits, such as the EZ or RC Employment Credit, to demonstrate progress in meeting program outputs. However, EZ and RC officials have had difficulty in obtaining tax information directly from businesses. As a result, the lack of data on the use of these benefits limits the ability of the designated communities to comply with this requirement. Also, the lack of data on these tax benefits limits the ability of EZs and RCs to use their designations to attract additional resources, which is a program

expectation. For example, according to tax and community development specialists, the inability to report on the extent to which some existing tax benefits are being used limits the ability of EZs and RCs to demonstrate the effectiveness of their revitalization programs. Moreover, the lack of data on these benefits limits the ability of HUD, USDA, or others to audit or evaluate the programs.[40]

Some Businesses Face Obstacles in Using the Tax Benefits

Although available data show that businesses are using some tax benefits in EZs, ECs, or RCs, we found that some businesses might face obstacles in using the tax benefits. In 1999, we reported that businesses cited several reasons for not taking advantage of the tax benefits, including not knowing about them, finding them too complicated, not qualifying for them, and not having federal tax liability.[41] During our current audit work, research results showed and tax experts expressed similar concerns. For example, a HUD-sponsored report noted that in 2000 many businesses did not know about the tax benefits available to them.[42] In addition, one tax expert noted that businesses must make several complicated calculations about their business activities to determine whether they satisfy the requirements for using the tax benefits. IRS officials suggested that the complexities of the tax code and changes in it over time might prevent smaller businesses from taking advantage of the EZ or RC benefits, because smaller businesses may not have access to tax professionals.[43] Also, one tax expert noted that some businesses, such as farms with assets greater than $500,000, do not qualify for the tax benefits. Moreover, businesses can only claim the tax credits against their reported profits. Since small companies and start-up businesses may not have federal tax liabilities, they may not be able to claim the EZ or RC credits to the same degree as larger or more profitable businesses.

[40]Even if these data were available, federal officials raised concerns regarding whether IRS could legally disclose taxpayer data to EZ or RC representatives. Under section 6103 of the Internal Revenue Code, IRS cannot release taxpayer information to unauthorized persons. Taxpayer information is generally defined as information that would reveal a taxpayer's identity or financial position.

[41]U.S. General Accounting Office, *Community Development: Businesses' Use of Empowerment Zone Tax Incentives*, GAO/RCED-99-253 (Washington, D.C.: September 1999). Our report was based on a survey of businesses operating in the original nine Round I EZs to determine the extent to which they took advantage of tax benefits available at that time.

[42]See Hebert and others, *Interim Assessment*.

[43]HUD recommends that businesses contact a tax attorney or certified public accountant before claiming these benefits.

Participating Federal Agencies Have Conducted Outreach and Provided Technical Assistance

HUD, USDA, IRS, and HHS have provided outreach for the EZ/EC and RC programs through conferences, training, and other resources. HUD and USDA have sponsored conferences to educate nominated and designated communities on a variety of subjects. HHS has provided information on its EZ/EC Web site and has participated in HUD and USDA conferences. Both IRS and HUD have made efforts to educate businesses about the tax benefits available to them through educational workshops. HUD sponsors satellite broadcasts on a semiannual basis on issues pertaining to performance, tax benefits, availability of funds, regulatory changes, and other issues. To aid in the designees' outreach to businesses, HUD has provided communities with lists of local businesses.

The agencies have also provided technical assistance through a variety of means, including Web sites, published guidance, and desk officers. HUD, USDA, and HHS each have Web sites dedicated to the programs that include links to resources, such as relevant audit guidance, best practices from designated communities, and online training materials. HUD also provides an EZ/EC/RC address locator on its Web site that enables taxpayers to determine whether businesses or employees are located within a zone and therefore eligible for tax benefits. USDA worked with HUD to ensure that their rural EZs and ECs were included in this tool. In addition, HUD, IRS, USDA, and HHS have provided guidance to designated zones, community groups, and businesses about available benefits.[44] HUD and USDA have also prepared application guides that explain the application process and benefits of designation. HUD and USDA have each published strategic planning guidebooks to help communities through the required strategic planning process, as well as guidebooks on program implementation and benchmarking.[45] HUD and USDA also have a group of desk and field officers available to respond to community inquiries about the program.

[44]IRS is currently preparing guidance for professional tax preparers.

[45]As used by HUD and USDA, "benchmarking" refers to specific tasks and timetables necessary to implement the strategic plan.

Participating Federal Agencies Have Developed Oversight Procedures

HUD and USDA are responsible for overseeing the progress of the urban and rural EZs and ECs, and HUD is responsible for overseeing the progress of the RCs.[46] The legislated role of HUD and USDA in both the EZ/EC and RC programs is to ensure that a community (1) does not modify the boundaries of the designated area and (2) is complying with or making progress toward the benchmarks of the EZ's or EC's strategic plan or, in the case of HUD, the RC's course of action and economic growth promotion requirements. HUD or USDA can revoke a community's designation if either of these two provisions is not met.

To implement their oversight responsibility for the EZ/EC program, HUD and USDA rely on Memorandums of Agreement, benchmark tracking, and annual progress reports. The Memorandum of Agreement that is signed by the state and local governments and HUD or USDA states the responsibilities of the parties for compliance with federal requirements.[47] HUD and USDA require designees to report annually on the steps they have taken in conjunction with their strategic plans. RC designees do not sign Memorandums of Agreement but do have to certify that they will take certain actions as part of the course of action and economic growth promotion requirements submitted with the application.

HUD and USDA make determinations as to the progress of the EZs or ECs in implementing their strategic plans and, when necessary, send warning letters to the designated communities based on data reported in the performance management systems. In 1997, HUD issued warning letters to five EZs and ECs. These warning letters ultimately did not result in any de-designations. As of late 2003, USDA has not sent warning letters to any rural EZs or ECs.

HUD and USDA Have Set Up Systems for Reporting Performance Data

Beginning with the Round II designations in 1998, HUD and USDA began using Internet-based performance management systems—the Performance Management System and the Benchmark Management System, respectively—to track the communities' performance. These systems allow each community to enter baseline and benchmark data on funding and results. Although designated communities update the systems

[46]HHS administers the use of Round I EZ/EC Social Services Block Grants. As set out in its regulations covering block grants, HHS provides maximum fiscal and administrative discretion to the states and relies fully on state laws and procedures.

[47]HHS also signs grant agreements with the recipients of Round I block grant funds.

constantly, an annual reporting deadline exists to provide a firm date at which a community should have all of its information up to date.

HUD's Round III EZ and RC annual reporting requirements are less stringent than those of prior rounds. Since Round III urban EZs and RCs do not receive grant funds, HUD officials do not expect Round III EZs to have as many projects as Round II EZs to include in their annual reporting. The RCs use a much simpler report template that includes sections on required goals and actions, economic growth promotion requirements, tax incentive utilization, and other accomplishments. HUD officials have also said that the use of tax benefits in the Round III EZ and RC programs makes it difficult to design and execute a way of tracking the programs. HUD is exploring the idea of developing a data collection method on the use of the tax benefits. This data collection effort would require approval from the Office of Management and Budget. HUD officials noted that one concern in developing a data collection procedure is that potentially the additional paperwork burden could discourage businesses from using the benefits. USDA has the same reporting requirements for Round III EZs as it does for Rounds I and II.

To assess the reliability of the performance data, field staff from HUD and USDA verify some of the community-reported data in the performance management systems. As part of its oversight role, HUD also provides field offices with a grant monitoring checklist, that requires determining whether (1) the documentation matches the information in the performance management system, (2) spending is reasonable in relation to progress, (3) the program and funds serve eligible purposes, (4) the activity took place within the EZ, (5) the resident benefit data are accurate, and (6) the EZ has appropriate accounting records and procedures. USDA state field staff check the reliability of the data entered by communities, and headquarters staff check for inconsistencies and outliers. In addition, every 2 years USDA has a "Management Control Review," in which headquarters staff verify the accuracy of the state-level reviews.

Recent Audits Have Raised Some Concerns About EZ/EC Program Oversight and Data Reliability

In our previous reports, we found weaknesses in program oversight. In 1996, we reported that HUD and the EZs had not yet (1) described measurable outcomes for the program's key principles or (2) indicated how the outputs anticipated from one or more benchmarks would help to

achieve those outcomes.[48] A HUD official reported that the agency implemented its Internet-based performance measurement system in response to a recommendation contained in our report. In 1997, we reported that rural EZ/ECs were not consistently reporting their progress to USDA and that USDA's EZ/EC state coordinators were not providing systematic reporting on the progress of rural EZ/ECs.[49] In response, USDA officials told us that they addressed this deficiency by adopting a nationwide community development field training program.

Both HUD's and USDA's IGs have raised concerns about the accuracy of the performance management systems and the adequacy of EZ/EC program oversight. For example, in a 2003 audit the HUD IG found that some Round II activities were benefiting people who did not live in the zones. They also found that 76 percent of the activities in the performance management system selected for their audit contained inaccurate data.[50] HUD noted in response that it had developed revised monitoring procedures and that it was developing regulations to clarify the requirements for resident benefits. During audits it conducted in 1999 and 2001, USDA's IG found that data pertaining to a Round I rural EZ and a Round II rural EC were not accurate or had not been updated as required. In response to the 2001 audit, USDA officials stated that the agency would initiate immediate actions to increase training efforts to community personnel in the areas of reporting, using the performance management system, maintaining proper accountability, and preparing annual budgetary reports. In another 2001 audit, which focused on one EZ, the USDA IG found that USDA staff had not looked at the performance and progress of any EZ-funded projects and provided little oversight of how the EZ used program funds. In addition, the audit noted that one funded project was located outside of the EZ and did not serve the required number of EZ residents. In response to the audit, USDA stated that the EZ tracking system would be amended to ensure that residents within the EZ were benefiting from EZ services but that the EZ was authorized to waive the resident benefit requirement if the project was deemed important to the community. USDA officials informed us that limited resources

[48]U.S. General Accounting Office, *Community Development: Status of Urban Empowerment Zones*, GAO/RCED-97-21 (Washington, D.C.: December 20, 1996).

[49]U.S. General Accounting Office, *Rural Development: New Approach to Empowering Communities Needs Refinement*, GAO/RCED-97-75 (Washington, D.C.: March 31, 1997).

[50]HUD IG's sample was not randomly selected, but was based on the projects' reported expenditures.

prevented the agency from performing a 100-percent verification of data contained in the performance management system.

Among the Few EZ/EC Evaluations That Have Been Conducted, Research Methods and Results Have Varied

The few evaluations that have systematically collected and analyzed data on the effectiveness of the EZ/EC program involved a variety of research methods and reported results that varied depending upon the aspect of the program studied.[51] In some cases, the methods researchers used depended on the data available to them. The most comprehensive of these evaluations—the HUD Interim Assessment—found, among other things, that employment of Round I EZ residents had increased from 1995 to 2000, that larger businesses were more likely to use tax benefits than smaller businesses, and that resident participation in EZ or EC governance had been uneven.[52] As with all evaluations of community development programs, these evaluations were also subject to some limitations. In particular, the researchers faced challenges demonstrating what would have happened in the communities in the absence of the program.[53]

Relatively Few Evaluations Have Been Conducted on the EZ/EC Program

Although 10 years have passed since the first round of communities were designated, we found only 11 evaluations that systematically collected and analyzed data on EZ/EC program effectiveness.[54] We found that none of these evaluations had assessed the effect of the EZ/EC program on poverty, one had assessed the effects of the EZ/EC program on resident employment, and three had assessed the effects of the EZ/EC program on aspects of economic growth in the distressed communities. Further, most of the evaluations examined the first few years of implementation by Round I designees. We found only one evaluation that assessed the effectiveness of Round II EZ/EC designees and no evaluations of the

[51]None of the evaluations we reviewed analyzed the RC program.

[52]See Hebert and others, *Interim Assessment*.

[53]This research challenge is often referred to as testing for the counterfactual.

[54]We reviewed more than 1,100 article and report abstracts to identify outcomes-focused evaluations of the federal EZ/EC and RC programs. We included evaluations that met the following criteria: (1) they focused on the federal EZ/EC or RC program; (2) they were research evaluations that systematically collected and analyzed empirical data (as opposed to reports of Best Practices/Lessons Learned or policy discussions of the program); and either (3) they evaluated the program in terms of its effect on poverty, unemployment, and/or economic growth consistent with our congressional mandate; or (4) they evaluated the program's effectiveness in any of the other program goal areas.

Round III EZs. In addition, we found that nine evaluations had assessed the implementation of the EZ/EC program's community participation and governance processes. Only the HUD Interim Assessment attempted to assess on a national scale the effect of the early stages of Round I EZ/EC implementation on unemployment and aspects of economic growth. Although USDA, IRS, and HHS each published studies of some aspect of the Round I EZ/EC designees, we did not find that these agencies had sponsored or conducted a comparable evaluation. A summary of the 11 evaluations we reviewed, listing the purpose and scope, primary research methods and data sources, major findings, and major limitations, appears in appendix VI.

A Variety of Methods Have Been Used to Evaluate EZs and ECs

Quantitative research methods were generally used to assess the effectiveness of the EZ/EC program in increasing employment and promoting economic growth, while qualitative research methods were generally used to determine the program's effectiveness in incorporating community participation and developing governance structures.[55] Statistical analysis of survey data and existing data (e.g., census data) were the most common research methods used to assess the effect of the EZ/EC program on employment and economic growth. Document reviews, interviews, and comparative analysis were the most frequent type of methods used to examine site governance structures and community participation. When multiple program objectives were evaluated, researchers generally used both quantitative and qualitative methods. For example, the HUD Interim Assessment used multiple methods and analytical approaches, such as regression analysis, surveys, and document reviews, to assess the effectiveness of the federal EZ/EC program in the first 5 years after the first round of EZ/EC designation.[56]

In some instances, neither qualitative nor quantitative data were available, requiring researchers to collect original data. For example, because IRS data on tax benefits cannot be reliably linked to individual designated communities, some researchers were required to collect data on tax usage through qualitative methods. According to a HUD official, the HUD Interim Assessment relied on commercial data and surveys to collect information

[55]Quantitative methods are methods of analysis that use data in the form of numbers. Qualitative methods analyze data in the form of words.

[56]Regression analysis is a method for determining the association between a dependent variable and one or more independent variables.

on the use of the EZ Employment Credit, because existing IRS data could not be attributed to individual EZs. He added that without the ability to attribute the credits to particular EZs, researchers cannot establish the connection between the businesses' use of the employment credit and observable changes in the EZ communities. Some evaluations, such as the HUD Interim Assessment and our 1998 report, also used surveys of business owners to assess their attitudes toward the tax benefits and to gauge the potential influence of the tax benefits on businesses.[57] To collect qualitative information on the strategic planning process or community participation, researchers reviewed documents and conducted interviews. Lastly, several evaluations reported results from agency performance data on the EZ/EC program; however, both the HUD IG and USDA IG reported concerns about the reliability of these data.

Early Evaluations Reported A Variety of Findings

The HUD Interim Assessment found that resident employment within five of the six Round I EZs had generally increased between 1995 and 2000.[58] Researchers also found that the employment of residents of four of the six EZs had grown faster than in similar neighborhoods. In addition, these researchers found that EZ residents owned an increasing number of the EZ businesses and that these businesses were more likely to hire other EZ residents.

Several evaluations reported factors that affected economic growth.[59] For example, the HUD Interim Assessment found that a variety of factors influenced the success of businesses (one measure of economic growth) in a designated community, with the central location of zones in their metropolitan areas cited as a positive influence and crime and poor public safety cited as the worst problems. In addition, GAO and the HUD Interim Assessment found that larger businesses were more likely to use available tax benefits than smaller businesses.

Results of some evaluations concluded that citizen participation and influence were greatest during the planning phase of the EZ/EC initiative

[57]Hebert and others, *Interim Assessment;* GAO/RCED-99-253.

[58]Hebert and others, *Interim Assessment.*

[59]Hebert and others, *Interim Assessment;* GAO/RCED-99-253; Richard P. Nathan and others, *Investing in a New Future: Special Report on Community Development Financing in Selected Empowerment Zone/Enterprise Community Sites* (Albany, NY: The Nelson A. Rockefeller Institute of Government, 1997).

and tapered off as the initiative moved into the implementation phase.[60] Researchers suggested that the decline in citizen participation might have occurred for several reasons, including a lack of federal supervision during implementation, the difficulty of implementing projects in reasonable time frames, and the technical nature of implementation activities, such as benchmarking reports.[61] Two evaluations concluded that citizen participation in the EZ/EC program was higher than participation in similar types of federal initiatives.[62] However, the HUD Interim Assessment found that local attention to resident participation in zone governance has been uneven.

Evaluations of EZs and ECs Were Subject to Some Limitations

The findings of these evaluations provide valuable descriptions of the early progress of Round I EZ/ECs. However, because of the difficulty of proving what would have happened in the absence of the program, these evaluations cannot be used to conclude that the program actually caused the observed changes. For example, the evaluations found that resident employment levels had increased, but it is possible that factors other than EZ/EC designation and the program benefits influenced employment levels. Although the HUD Interim Assessment attempted to control for these other factors by comparing EZ/EC employment to employment in both adjacent and nonadjacent comparison neighborhoods, the authors could not say conclusively what the employment levels in the zones might have been if these areas had not been designated as EZs or ECs. If, for example, the communities selected for the EZ/EC program were those with the most potential for development from among the eligible areas within a city, it is possible that these analyses overstated the program effects.

[60]Robert J. Chaskin and Clark M. Peters, *Governance in Empowerment Zone Communities: A Preliminary Examination of Governance in Fifteen Empowerment Zone Communities* (Chicago, IL: University of Chicago, Chapin Hall Center for Children, 1997); Marilyn Gittell, Kathe Newman, and Francois Pierre-Louis, *Empowerment Zones: An Opportunity Missed: A Six City Comparative Study* (New York, NY: The City University of New York, The Howard Samuels State Management and Policy Center, 2001); Nathan, and others, *Empowerment Zone Initiative: Building a Community Plan for Strategic Change* (Albany, NY: The Nelson A. Rockefeller Institute of Government, 1997).

[61]Gittell, Newman, Pierre-Louis, *Empowerment Zones*; Chaskin and Peters, *Governance in Empowerment Zone Communities*; Nathan and others, *Empowerment Zone Initiative.*

[62]Nathan and others, *Empowerment Zone Initiative*; Fahui Wang and Joseph A. Van Loo, "Citizen Participation in the North Delta Mississippi Community Development Block Grants, Empowerment Zones and Enterprise Communities," *Planning Practice and Research* 13, no. 4 (1998), pp. 443-51.

Many evaluations were unable to make generalizations about all EZ/ECs because their conclusions were limited to the specific communities that they studied. For example, the large number of EC sites makes it relatively difficult to fully investigate the effectiveness of programs in all sites. Authors of the HUD Interim Assessment and others have noted that creating an evaluation of the EZ/EC program and its four principles is difficult, because the program is based on the idea that effective community revitalization occurs when the strategy is tailored to the local site.[63] This type of program requires an evaluation design, such as a case study, that is able to capture changes that result from each site's specific strategic plan, but generalizing the results of such evaluations to a larger population may not be possible. For example, the diverse nature of the Round I EZ/ECs—in which each EZ/EC may differ in terms of objective, size of the targeted areas, type of designation, governance structure, projects used, and strategies for implementation—made it difficult for researchers to generate general conclusions for the early stages of Round I implementation.

Conclusions

HUD, USDA, HHS, and IRS have implemented the EZ/EC and RC programs. As part of the implementation, HUD and USDA expect designated communities to report on how program benefits are being used, both directly and as a method of attracting additional resources. However, because of the limited amount of data on the use of EZ and RC tax benefits—which the Joint Committee on Taxation estimates will reduce federal tax revenue by about $11 billion between 2001 and 2010—EZs and RCs cannot reliably report on their use by local businesses. In addition, Congress has requested that we audit and evaluate the programs. Acquiring additional data that can attribute the use of the tax benefits to particular EZs and RCs would provide information to facilitate an audit of these programs. Also, additional tax data would be necessary to evaluate certain aspects of the programs, such as the use of the tax benefits. While it is difficult to isolate the effects of these programs on improving conditions in distressed communities, without the ability to attribute the tax benefits to particular EZs and RCs, researchers cannot begin to establish the connection between the businesses' use of the tax benefits and observable changes in the communities. Such data could potentially

[63]Hebert and others, *Interim Assessment*; N. T. Jenkins and M. I. J. Bennett, "Toward an Empowerment Zone Evaluation," *Economic Development Quarterly* 13, no. 1(1999), pp. 23-28.

come from a variety of sources, including IRS forms, surveys of businesses, or commercial databases.

Recommendation

To facilitate the administration, audit, and evaluation of the EZ/EC and RC programs, we recommend that HUD, USDA, and IRS collaborate to (1) identify the data needed to assess the use of the tax benefits and the various means of collecting such data; (2) determine the cost-effectiveness of collecting these data, including the potential impact on taxpayers and other program participants; (3) document the findings of their analysis; and, if necessary, (4) seek the authority to collect the data, if a cost-effective means is available.

Agency Comments

We provided copies of a draft of this report for review and comment to HUD, IRS, USDA, and HHS. These agencies' written replies are reproduced in appendixes VII through X, respectively. HUD and IRS agreed with the report's descriptions of the EZ/EC and RC programs as well as the recommendation. HUD generally agreed with our descriptions of the features of the EZ/EC and RC programs, and the status of their implementation at the national level. IRS stated that the data they provided us on the tax benefits available to businesses operating in EZs, ECs, and RCs were accurately reflected in our report. USDA raised several concerns about our discussion of the EZ/EC program. In particular, the Acting Under Secretary for Rural Development stated that our focus on grants and tax incentives neglected the broader purpose of empowering impoverished communities to plan for and achieve their own goals through "holistic means." HHS's Administration for Children and Families had no comments. HUD, IRS, and USDA also provided technical comments, which we have incorporated into this report where appropriate.

According to HUD's Deputy Assistant Secretary for Economic Development, HUD agrees with the report's recommendation that HUD, USDA, and IRS collaborate to examine options for collecting data on the use of tax benefits available to businesses operating in EZs, ECs, and RCs. He noted that HUD concurs with the report's findings, including the finding that data on the use of the tax benefits is limited at this time, and added that HUD is currently developing a strategy to use available federal agency resources to develop the data needed to assess the use of the EZ/EC and RC tax incentives. In addition, he noted that IRS had assisted HUD in answering technical questions and participating in HUD training conferences and workshops. He stated that HUD would continue its

efforts to work with IRS to gather the data needed to measure businesses' use of tax benefits in designated communities. In response to findings from its Office of Inspector General, HUD's Deputy Assistant Secretary indicated that HUD was taking action to improve program oversight, including developing guidance on eligible uses of EZ funds and instructions for reporting on the progress of EZ activities.

The Commissioner of Internal Revenue agreed with our recommendation to work with HUD and USDA to identify the data needed to assess the use of the tax benefits and the costs of collecting that data.

The Acting Under Secretary of Rural Development for USDA raised a number of concerns with our discussion of the EZ/EC program. While he indicated that USDA welcomed the opportunity to collaborate with IRS and HUD, he raised concerns that responding to the report's recommendation could stretch the agency's already scarce resources to produce data of possibly marginal utility and potentially invade taxpayers' privacy. We believe that the lack of data on the usage of EZ/EC tax benefits limits the ability of USDA and HUD to administer the EZ/EC program, and limits the ability of these agencies and others to evaluate such programs. We stated in our report that data on the use of the tax benefits could come from a variety of sources, such as IRS forms, surveys of businesses, or commercial databases. As a result, collecting such information may not necessarily have a significant impact on USDA's resources. Moreover, the recommendation calls for HUD, USDA, and IRS to determine the cost effectiveness of collecting these data. Any data that are collected on the use of the tax benefits should be done according to IRS rules for protecting taxpayer privacy.

In his letter, the Acting Under Secretary also stated that our report addresses only two program tools (grants and tax incentives) and, by doing so, neglects the broader purpose behind the program of "empowering impoverished communities to plan for and achieve their own goals through holistic means." To the contrary, the report describes a variety of program features including, but not limited to, grant and tax benefits. In particular, the report discusses the programs' stated goals and objectives and the key principles nominated communities were required to include in their strategic plans, including the need for community-based partnerships that involve all segments of the community. However, because the report is largely descriptive, it does not examine the extent to which the objectives and purposes of the EZ/EC program have been met.

In addition, the USDA Acting Under Secretary indicated that our statement that the lack of data on tax benefits is a limiting factor in communities' ability to attract additional resources presumes that these data are the only tool that designated communities have to attract additional resources. We agree with the Acting Under Secretary's statement that such data are not the only means that communities can use to attract additional resources. However, representatives of EZs and RCs we spoke with stated that their ability to attract additional resources was limited by not being able to report on the extent to which the programs' tax benefits were being used in their communities.

The Acting Under Secretary also raised concerns about our description of the agency's online performance management system. Our purpose in discussing the system was to describe the efforts USDA has made to oversee the EZ/EC program. We described the purpose of the system and the steps USDA takes to verify data contained in it. We also reported the findings of the USDA IG audits concerning the system and actions USDA officials reported that the agency had taken in response to the audits. We did not use data from the system in our report, nor did we evaluate the reliability of the data contained in it.

Finally, the Acting Under Secretary also noted that our report did not include all federal programs that provided benefits to communities designated in the EZ/EC program, such as the AmeriCorps program benefits that Round I rural EZs and ECs received in the first two years of the program. As we reported in appendix V, we found that several federal programs offered preferences to applicants located in EZs, ECs, and RCs. However, the extent to which these applicants have taken advantage of these preferences is not known.

We are sending copies of this report to the Secretary of Housing and Urban Development, the Secretary of Treasury, the Commissioner of the Internal Revenue Service, the Secretary of Agriculture, the Secretary of Health and Human Services, and other interested Members of Congress. We will make copies of this report available to others upon request. In addition, this report will be available at no charge on the GAO Web site at http://www.gao.gov.

Please call me on (202) 512-8678 if you or your staff have any questions about this report. Key contributors to this report are listed in appendix XI.

William B. Shear

William Shear
Director, Financial Markets and
Community Investment

Appendix I: Scope and Methodology

The objectives of this study were to describe (1) the features of the Empowerment Zone and Enterprise Community (EZ/EC) program and Renewal Community (RC) program; (2) the extent to which the programs have been implemented; and (3) the methods that have been used and the results that have been found in evaluations of the programs' effectiveness, especially on poverty, unemployment, and economic growth in the participating communities. While our descriptions included analyses of the data that have been and could be used to address these three topics, we did not evaluate the effectiveness of the programs or their implementation in this report. We addressed the activities of federal programs in both rural and urban areas in all three rounds of the EZ/EC program and the RC program.

To describe the features of each round of the program, we relied on a review of congressional legislation related to the EZ/EC and RC programs; the Department of Housing and Urban Development (HUD), the U.S. Department of Agriculture (USDA), and the Department of Health and Human Services (HHS) regulations; and HUD, USDA, the Internal Revenue Service (IRS), and HHS publications. To supplement our understanding of these documents, we interviewed a number of program officials at these agencies. We put the available program data and descriptions into data matrices and spreadsheets in order to summarize, compare, and contrast the features of the program in each of the rounds.

To describe the implementation of the programs at the national level, we relied on reviews of legislation, regulations, program publications, Web sites, and existing Inspector General (IG) studies and interviews with program officials and other area experts. We analyzed 1990 census data to report on some characteristics of the designated communities. We also obtained and analyzed data from HUD, USDA, HHS, and IRS on the utilization of grants, tax benefits, and loan guarantees. To assess the data's reliability, we searched for missing data and values outside an expected range and assessed the relationship of data elements to each other. As appropriate, we analyzed a sample of some financial data to confirm their reliability by comparing the agencies' financial data with original source documents. We interviewed knowledgeable agency officials from IGs' offices, divisions of payment management, and program offices regarding the work they had done to assess the data's integrity and the results of that work. We determined that the data were sufficiently reliable for use in this report. This report does not include data from HUD's or USDA's performance management systems.

To determine the average characteristics of designated communities, we used data from the 1990 census. Because census estimates of poverty and unemployment rates for EZs, ECs, and RCs are estimates based on probability samples, each estimate is based on just one of a large number of samples that could have been drawn. Since each sample could have produced different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. For example, the estimated poverty rate is 45.23 percent for urban Round I EZ communities, and the 95 percent confidence interval for this estimate ranges from 44.86 to 45.59 percent. This is the interval that would contain the actual population value for 95 percent of the samples that could have been drawn. As a result, we are 95 percent confident that each of the confidence intervals in this report will include the true values in the study population. All poverty and unemployment percentage estimates have 95 percent confidence intervals of plus or minus 1.2 percentage points or less, as summarized in table 11.

Table 11: Variation in Census Statistics for EZs, ECs, and RCs

			95 percent confidence interval	
Description	**Communities**	**Estimate**	**From**	**To**
Percent in poverty				
Round I EZ	Urban	45.23%	44.86%	45.59%
	Rural	44.75%	43.70%	45.80%
Round II EZ	Urban	42.84%	42.42%	43.27%
	Rural	35.60%	34.57%	36.64%
Round III EZ	Urban	42.92%	42.37%	43.48%
	Rural	31.02%	29.83%	32.20%
Round I EC	Urban	41.12%	40.92%	41.33%
	Rural	35.79%	35.40%	36.17%
Round II EC	Rural	37.67%	37.15%	38.20%
RC	Urban	41.33%	41.10%	41.57%
	Rural	38.23%	37.89%	38.57%
Percent unemployed				
Round I EZ	Urban	20.75%	20.37%	21.12%
	Rural	13.05%	12.22%	13.88%
Round II EZ	Urban	15.40%	15.04%	15.76%
	Rural	12.26%	11.46%	13.07%
Round III EZ	Urban	15.36%	14.87%	15.84%

Description	Communities	Estimate	95 percent confidence interval	
			From	To
	Rural	13.37%	12.41%	14.33%
Round I EC	Urban	15.73%	15.55%	15.91%
	Rural	13.12%	12.80%	13.43%
Round II EC	Rural	15.39%	14.94%	15.84%
RC	Urban	18.62%	18.39%	18.84%
	Rural	13.57%	13.29%	13.85%

Source: GAO analysis of HUD, USDA, and Census data.

In addition to sampling errors, census data (both sampled and 100 percent data) are subject to nonsampling errors, which may occur during the operations used to collect and process census data. Examples of nonsampling errors are not enumerating every housing unit or person in the sample, failing to obtain all required information from a respondent, obtaining incorrect information, and recording information incorrectly. Operations such as field review of enumerators' work, clerical handling of questionnaires, and electronic processing of questionnaires also may introduce nonsampling errors in the data. The Census Bureau discusses sources of nonsampling errors and attempts to control them in detail.

To address businesses' use of the EZ Employment Credit, we obtained information from IRS's Statistics of Income databases of corporate and individual tax returns for 1995 through 2001. Although there were some data available for 1994, we excluded it from our analysis because the sample was based on a small number of returns in this year and yielded unreliable confidence intervals. All reported individual return statistics and the corporate return statistics for years 1995 to 1997 and 2001 are estimates based on probability samples. Using IRS's Statistics of Income Division sampling weights, we estimated confidence intervals for the estimated number and amount of total credits. These estimates and their confidence intervals are summarized in table 12.

Table 12: Confidence Intervals for EZ Employment Credit Estimates

Description	Year	Estimate	95 percent confidence interval From	95 percent confidence interval To
Corporate returns				
Number of returns claiming the EZ Employment Credit				
	1995	193	88	366
	1996	464	176	989
	1997	630	409	927
	1998	402	[a]	[a]
	1999	420	[a]	[a]
	2000	479	[a]	[a]
	2001	559	555	562
Amount claimed in EZ Employment Credit				
	1995	$7,409,228	$3,574,947	$11,243,510
	1996	$9,382,387	$6,612,327	$12,152,448
	1997	$13,222,819	$10,432,042	$16,013,595
	1998	$19,117,527	[a]	[a]
	1999	$21,645,271	[a]	[a]
	2000	$23,527,478	[a]	[a]
	2001	$23,401,274	$23,037,765	$23,764,782
Individual returns				
Number of returns claiming the EZ Employment Credit				
	1995	239	126	412
	1996	460	176	975
	1997	686	291	1,368
	1998	3,100	1,904	4,698
	1999	4,752	3,571	6,199
	2000	5,074	3,744	6,722
	2001	6,745	5,199	8,606
Amount claimed in EZ Employment Credit				
	1995	$8,497,429	$3,142,915	$13,851,942
	1996	$10,810,233	$1,901,366	$19,719,099
	1997	$19,090,668	$5,670,794	$32,510,542
	1998	$22,088,019	$10,360,890	$33,815,148
	1999	$26,728,435	$14,596,766	$38,860,105
	2000	$21,948,244	$12,826,922	$31,069,565

Description	Year	Estimate	95 percent confidence interval	
			From	To
	2001	$24,274,141	$17,115,109	$31,433,173

Source: GAO analysis of IRS data.

[a]These data do not require confidence intervals because the total amounts are based on the population of tax returns.

To identify the methods that have been used and the results that have been found in assessments of the effectiveness of the EZ/EC and RC programs, we conducted searches of the literature and interviewed agency personnel and community development experts. We reviewed more than 1,100 article and report abstracts to identify outcomes-focused evaluations of the federal EZ/EC and RC programs. We included evaluations that met the following criteria: (1) they focused on the federal EZ/EC or RC program; (2) they were research evaluations that systematically collected and analyzed empirical data (as opposed to reports of Best Practices/Lessons Learned or policy discussions of the program); and either (3) they evaluated the program in terms of its effect on poverty, unemployment, and/or economic growth consistent with our congressional mandate; or (4) they evaluated the program's effectiveness in any of the other program goal areas. The remaining 11 evaluations, on which we focused our work, were program evaluations or described the process of implementation that affected how the program operated.

We conducted our work in Washington, D.C., from April 2003 through February 2004 in accordance with generally accepted government auditing standards.

Appendix II: List of Designated Communities

To date, Congress has authorized the designation of three rounds of EZs, two rounds of ECs, and one round of RCs. In addition, at the same time that HUD and USDA announced the Round I designations, HUD created two additional designations—Supplemental Empowerment Zones and Enhanced Enterprise Communities. See table 13 for a complete list of designated communities.

Table 13: List of Designated Communities

Round I Urban EZs (6)
Atlanta, Georgia[a]
Baltimore, Maryland
Chicago, Illinois
Detroit, Michigan
New York, New York
Philadelphia, Pennsylvania/Camden, New Jersey
Round I Rural EZs (3)
Kentucky Highlands, Kentucky
Mid-Delta, Mississippi
Rio Grande Valley, Texas
Round I Urban ECs (65)
Akron, Ohio
Albany, Georgia
Albany/Schenectady[a]/Troy, New York
Albuquerque, New Mexico
Birmingham, Alabama
Boston, Massachusetts
Bridgeport, Connecticut
Buffalo, New York[a]
Burlington, Vermont[a]
Charleston, South Carolina[a]
Charlotte, North Carolina
Cleveland, Ohio
Columbus, Ohio
Dallas, Texas
Denver, Colorado
Des Moines, Iowa
East St. Louis, Illinois
El Paso, Texas
Flint, Michigan

Harrisburg, Pennsylvania
Houston, Texas
Huntington, West Virginia
Indianapolis, Indiana
Jackson, Mississippi
Kansas City, Missouri/Kansas City, Kansas
Las Vegas, Nevada
Little Rock/Pulaski, Arkansas
Los Angeles, California[a]
Louisville, Kentucky
Lowell, Massachusetts
Manchester, New Hampshire
Memphis, Tennessee[a]
Miami/Dade County, Florida
Milwaukee, Wisconsin[a]
Minneapolis, Minnesota
Muskegon, Michigan
Nashville/Davidson, Tennessee
New Haven, Connecticut
New Orleans, Louisiana[a]
Newark, New Jersey[a]
Newburgh/Kingston, New York
Norfolk, Virginia
Oakland, California
Ogden, Utah
Oklahoma City, Oklahoma
Omaha, Nebraska
Ouachita Parish, Louisiana[a]
Phoenix, Arizona
Pittsburgh, Pennsylvania
Portland, Oregon
Providence, Rhode Island
Rochester, New York[a]
San Antonio, Texas
San Diego, California[a]
San Francisco, California[a]
Seattle, Washington
Springfield, Illinois
Springfield, Massachusetts

St. Louis, Missouri
St. Paul, Minnesota
Tacoma, Washington[a]
Tampa, Florida
Waco, Texas
Washington, District of Columbia
Wilmington, Delaware

Round I Supplemental Empowerment Zones (2)

Cleveland, Ohio[b, c]
Los Angeles, California[c]

Round I Enhanced Enterprise Communities (4)

Boston, Massachusetts[b]
Houston, Texas[b]
Kansas City, Missouri/Kansas City, Kansas[b]
Oakland, California[b]

Round I Rural ECs (30)

Accomack and Northampton County, Virginia
Arizona Border Region, Arizona
Beadle/Spink Counties, South Dakota
Central Appalachia, West Virginia
Central Savannah River Area, Georgia
Chambers County, Alabama
City of East Prairie, Missouri
City of Lock Haven, Pennsylvania
City of Watsonville, California
Crisp/Dooly County, Georgia
East Arkansas, Arkansas
Fayette/Haywood County, Tennessee
Greater Portsmouth, Ohio
Greene-Sumter, Alabama[a]
The Halifax/Edgecombe/Wilson Empowerment Alliance, North Carolina
Imperial County, California
Jackson County, Florida
Josephine County, Oregon
La Jicarita, New Mexico
Lake County, Michigan
Lower Yakima County, Washington
Macon Ridge, Louisiana[a]
McDowell County, West Virginia

Mississippi County, Arkansas
North Delta Mississippi, Mississippi
Northeast Louisiana Delta, Louisiana
Robeson County, North Carolina
Scott, Tennessee/McCreary, Kentucky
Southeast Oklahoma, Oklahoma
Williamsburg-Lake City, South Carolina

Round II Urban EZs (15)

Boston, Massachusetts
Cincinnati, Ohio
Columbia/Sumter, South Carolina
Columbus, Ohio
Cumberland County, New Jersey
El Paso, Texas
Gary/Hammond/East Chicago, Indiana
Ironton, Ohio/Huntington, West Virginia
Knoxville, Tennessee
Miami/Dade County, Florida
Minneapolis, Minnesota
New Haven, Connecticut
Norfolk/Portsmouth, Virginia
Santa Ana, California
St. Louis, Missouri/East St. Louis, Illinois

Round II Rural EZs (5)

Desert Communities, California
Griggs-Steele, North Dakota
Oglala Sioux Tribe, South Dakota
Southernmost Illinois Delta, Illinois
Southwest Georgia United, Georgia

Round II Rural ECs (20)

Allendale ALIVE, South Carolina
Bowling Green, Kentucky
City of Deming, New Mexico
Clare County, Michigan
Clinch-Powell, Tennessee
Empower Lewiston, Maine
Empowerment Alliance of Southwest Florida, Florida
Fayette, Pennsylvania
Five Star, Washington

Fort Peck Assiniboine & Sioux Tribe, Montana
Four Corners, Arizona
FUTURO Communities, Texas
Huron-Tule, California[a]
Metlakatla Indian Community, Alaska
Molokai, Hawaii
Northwoods NiiJii, Wisconsin
Town of Austin, Indiana
Tri-County Indian Nations, Oklahoma
Upper Kanawha, West Virginia
Wichita County, Kansas

Round III Urban EZs (8)

Fresno, California
Jacksonville, Florida
Oklahoma City, Oklahoma
Pulaski County, Arkansas
San Antonio, Texas
Syracuse, New York
Tucson, Arizona
Yonkers, New York

Round III Rural EZs (2)

Aroostook County, Maine
FUTURO, Texas

Urban RCs (28)

Atlanta, Georgia
Buffalo-Lackawanna, New York
Camden, New Jersey
Charleston, South Carolina
Chattanooga, Tennessee
Chicago, Illinois
Corpus Christi, Texas
Detroit, Michigan
Flint, Michigan
Hamilton, Ohio
Lawrence, Massachusetts
Los Angeles, California
Lowell, Massachusetts
Memphis, Tennessee
Milwaukee, Wisconsin

Mobile, Alabama
New Orleans, Louisiana
Newark, New Jersey
Niagara Falls, New York
Ouachita Parish, Louisiana
Philadelphia, Pennsylvania
Rochester, New York
San Diego, California
San Francisco, California
Schenectady, New York
Tacoma, Washington
Yakima, Washington
Youngstown, Ohio
Rural RCs (12)
Burlington, Vermont
Central Louisiana, Louisiana
Eastern Kentucky, Kentucky
El Paso County, Texas
Greene-Sumter, Alabama
Jamestown, New York
Northern Louisiana, Louisiana
Orange Cove, California
Parlier, California
Southern Alabama, Alabama
Turtle Mountain Band of Chippewa, North Dakota
West-Central Mississippi, Mississippi

Source: HUD and USDA.

[a]Later received RC designation.

[b]During Round I, these communities were also designated as Round I ECs.

[c]These communities received Round I EZ status on January 1, 2000.

Appendix III: Federal Benefits Available to EZs, ECs, and RCs at the Time of Designation and as of September 30, 2003

The authorizing legislation for the EZ/EC and RC programs provided participants with grant and/or tax benefits. A prominent feature of the EZ/EC program—the Social Services Block Grant—was only offered to Round I EZ and EC participants. However, Round II EZs and ECs received grant funds from HUD's and USDA's annual appropriations. In addition, the number of tax benefits increased over the course of the three rounds of the EZ/EC program and was the main benefit available to RCs. (See table 14.)

Table 14: Summary of Benefits Provided to EZs, ECs, and RCs at the Time of Designation and as of September 30, 2003

	At time of designation	As of September 30, 2003[b]
Round I EZs 1994	• EZ/EC Social Services Block Grants • EZ Employment Credit • Increased Section 179 Deduction • Enterprise Zone Facility Bonds • Regulatory waivers[a] • Preference points for other federal programs • Earmarked grants and loans	• EZ/EC Social Services Block Grants • EZ Employment Credit • Increased Section 179 Deduction • Enterprise Zone Facility Bonds • EZ Facility Bonds • Nonrecognition of Gains on the Sale of EZ Assets • Partial Exclusion of Gain on the Sale of EZ Stock • Preference points for other federal programs • Earmarked grants and loans
Round I ECs 1994	• EZ/EC Social Services Block Grants • Enterprise Zone Facility Bonds • Regulatory waivers[a] • Preference points for other federal programs • Earmarked grants and loans • Economic Development Initiative Grants (Supplemental Empowerment Zones and Enhanced Enterprise Communities) • Section 108 Loan Guarantees (Supplemental Empowerment Zones and Enhanced Enterprise Communities)[c]	• EZ/EC Social Services Block Grants • Enterprise Zone Facility Bonds • Preference points for other federal programs • Earmarked grants and loans • Economic Development Initiative Grants (Supplemental Empowerment Zones and Enhanced Enterprise Communities) • Section 108 Loan Guarantees (Supplemental Empowerment Zones and Enhanced Enterprise Communities)
Round II EZs 1998	• Increased Section 179 Deduction • Enterprise Zone Facility Bonds • EZ Facility Bonds • Preference points for other federal programs • Earmarked grants and loans	• Annual Appropriations, Fiscal Years 1999-2004 • EZ Employment Credit • Increased Section 179 Deduction • Enterprise Zone Facility Bonds • EZ Facility Bonds • Nonrecognition of Gains on the Sale of EZ Assets • Partial Exclusion of Gain on the Sale of EZ Stock • Preference points for other federal programs • Earmarked grants and loans

	At time of designation	As of September 30, 2003[b]
Round II ECs 1998	• Preference points for other federal programs • Earmarked grants and loans	• Annual Appropriations, Fiscal Years 1999-2004 • Preference points for other federal programs • Earmarked grants and loans
Round III EZs 2002	• EZ Employment Credit • Increased Section 179 Deduction • Enterprise Zone Facility Bonds • EZ Facility Bonds • Nonrecognition of Gains on the Sale of EZ Assets • Partial Exclusion of Gain on the Sale of EZ Stock • Preference points for other federal programs • Earmarked grants and loans	• EZ Employment Credit • Increased Section 179 Deduction • Enterprise Zone Facility Bonds • EZ Facility Bonds • Nonrecognition of Gains on the Sale of EZ Assets • Partial Exclusion of Gain on the Sale of EZ Stock • Preference points for other federal programs • Earmarked grants and loans • Annual Appropriations, Fiscal Year 2004 (rural only)
RCs 2002	• Increased Section 179 Deduction • RC Employment Credit • Commercial Revitalization Deduction • Zero Percent Capital Gains Rate for RC Assets • Preference points for other federal programs	• Increased Section 179 Deduction • RC Employment Credit • Commercial Revitalization Deduction • Zero Percent Capital Gains Rate for RC Assets • Preference points for other federal programs

Source: GAO summary of HUD and USDA program documents.

[a]Following Round I, the EZ/EC program de-emphasized the waiver feature, but communities could still request waivers on a more informal basis.

[b]Some new benefits provided to later rounds of designation were also provided to earlier designees. Thus, in some instances, the number of benefits as of September 30, 2003, exceeds the number of benefits for which a community was originally eligible.

[c]According to a HUD official, these Section 108 Loan Guarantees were awarded between May and July, 1995.

Appendix IV: Other Tax Benefits Available to Businesses Serving Distressed Communities and Low-Income Individuals

In addition to federal tax benefits that have been specifically available for businesses in EZs, ECs, and RCs, taxpayers who engage in business in these communities are typically eligible for other federal tax benefits not specifically designed for such communities. These benefits include tax credits and deductions intended to encourage taxpayers to invest in distressed communities, employ low-income people, and provide housing for low-income people. (Table 15 provides a list of other federal tax benefits intended to assist distressed communities.)

Table 15: Other Tax Benefits Available to Businesses Serving Distressed Communities and Low-Income Individuals

Tax benefit	Effective year	Expiration year	Provisions
Low Income Housing Tax Credit	1987	none	Owners of newly constructed or renovated rental housing who set aside a specified percentage or units for low-income persons for a minimum of 15 years are eligible for a tax credit over a 10-year period. The taxpayer must receive an allocation of these credits from a state agency to qualify.
Indian Employment Credit	1994	2004	Businesses that hire certain individuals who live on or near an Indian reservation may be eligible for a credit of 20 percent on certain wages and benefits paid to qualified employees.
Depreciation of Property Used on Indian Reservations	1994	2004	Businesses can use shorter recovery periods to depreciate certain qualified property that is used predominantly in the active conduct of a trade or business on an Indian reservation.
Work Opportunity Tax Credit	1996	2003[a]	Businesses can claim up to $2,400 in tax credits for first-year wages paid to targeted employees, such as ex-felons, food stamp recipients, and employees between 18 and 24 who live in an EZ, EC or RC.
Environmental Cleanup Cost Deduction	1997	2003	Businesses that clean up certain sites contaminated with hazardous substances can deduct their cleanup costs in the year that the businesses incur those costs. Businesses may deduct these costs in 1 year instead of taking depreciation deductions over a specified period of time.
Welfare-to-Work Tax Credit	1998	2003[a]	Businesses can claim credits for wages paid to long-term family assistance recipients in the first 2 years of employment. The allowable credit limit is $3,500 for wages paid in the first year and $5,000 for wages paid in the second.
Qualified Zone Academy Bonds	1998	2003[b]	State and local governments can issue bonds at a zero-percent interest rate to finance certain public school programs, such as building renovation, teacher training, and educational materials and equipment. Certain businesses, such as banks and insurance companies, that purchase these bonds are eligible for tax credits equal to the market taxable interest rate in lieu of interest payments. Schools that benefit from these bonds must be located in an EZ or EC, or have at least 35 percent of their students eligible for free or reduced cost lunches.
New Markets Tax Credit	2001	2007[c]	Investors in qualified Community Development Entities can claim tax credits over a 7-year period. The credit is 5 percent in the first 3 years of the investment, and 6 percent for the remaining 4 years, for a total of 39 percent. The Community Development Entity must receive an allocation of credits through the Treasury Department for investors to be eligible.

Source: GAO summary of HUD and IRS publications; P.L. 99-514, P.L. 103-66, P.L. 104-188, P.L. 105-34, P.L. 106-554, and P.L. 107-147.

[a]Expires for individuals who begin work after December 31, 2003.

[b]No new credits are authorized after 2003. However, unused credits may be carried forward through 2006.

[c]Congress authorized $15 billion in New Markets Tax Credits and provided a schedule limiting the amount of allocations for each calendar year beginning in 2001 through 2007. Congress also allowed for a carryover of unused credits to the next calendar year, increasing the amount of credits available by that amount; however, no amount may be carried to any calendar year after 2014.

Appendix V: Other Benefits Available to Certain Designees

In addition to grants and federal tax benefits, EZs, ECs, and RCs were eligible to seek waivers from federal programmatic, statutory, or regulatory requirements to facilitate their revitalization efforts. However, nominees made limited use of the waiver initiative and, although still available to designees, it is no longer considered a primary feature. Also, communities designated by HUD as Supplemental Empowerment Zones or Enhanced Enterprise Communities were provided with Section 108 Loan Guarantees to provide security for loans that finance economic development and revitalization projects. Finally, in some cases, EZs, ECs, and RCs received a preference in receiving assistance under a variety of federal programs. However, the extent to which communities have received these preferences is unknown.

Round I EZs and ECs Made Limited Use of the Waiver Initiative

In Round I of the EZ/EC program, both HUD and USDA guidance invited nominees to request, as an addendum to their applications, waivers from federal programmatic, statutory, or regulatory requirements to facilitate their ability to conduct revitalization efforts. This feature was not established in the EZ/EC program legislation or regulations; rather, it was an administrative initiative. In response to a request, HUD and USDA would offer to work with the communities to seek statutory authority for broader flexibility of federal programs. For example, nominees could ask for exemptions, increased flexibilities, or changes in eligibility requirements for other federal programs.

Available data indicate that Round I designees made limited use of the available waivers from programmatic and regulatory requirements to facilitate their ability to conduct revitalization efforts. Program officials said that many of the nominees requested waivers of statutory requirements, which HUD and USDA could not provide. The HUD Interim Assessment examined 244 waiver requests made by 18 urban Round I EZ/ECs. The HUD Interim Assessment found that the most commonly requested waivers included requests such as exemption from Davis-Bacon Act requirements; flexibility in using block grant funds; and changes in eligibility for federal programs, such as Aid to Families with Dependent Children, Food Stamps, and Medicaid. The report found that federal agencies fully or partially approved 5 percent of the requests and denied 33 percent of the requests either because the agencies lacked the authority to grant them or for other reasons. In addition, 21 percent of the waiver requests asked for flexibilities that already existed, and the remaining requests either required more information or the agency reached some other disposition. Although USDA officials did not quantify the disposition

of waiver requests through an independent study, a USDA official estimated that fewer than 10 waiver requests had been approved annually.

Because of the Round I experience, both HUD and USDA de-emphasized the waiver initiative. In the application materials for HUD Round II and III, and for the RCs, no mention is made of encouraging requests for waivers. In the USDA Round II application materials, the waiver request initiative is retained, but in the Round III application, no mention is made of the opportunity for nominees to request waivers. HUD and USDA officials told us that designees could still request waivers, but that there was no longer a formal initiative such as was used in Round I.

HUD Designees Have Begun to Use Loan Guarantees

After HUD designated the Supplemental Empowerment Zones and Enhanced Enterprise Communities in Round I, the agency provided them with a total of $653 million in Section 108 Loan Guarantees (See table 16).[64] Like the Economic Development Initiative Grants also offered to these designees, these loan guarantees are to provide security for loans that finance economic development and revitalization projects. A Section 108 loan guarantee allows local governments to obtain loans for economic development projects that (1) benefit low and moderate income families; (2) prevent or eliminate slums or blight; or (3) meet other urgent community development needs. These loans are secured by a community's current and future Community Development Block Grant allocations for up to five years and carry the full faith and credit of the U.S. government in the event of a default. This benefit allows a local government entity to reduce its borrowing costs. The local government entities can also provide additional security for their section 108 loan repayments or enhance the feasibility of certain projects by paying directly for certain project expenses with its Economic Development Initiative grants.

[64]HUD awarded separate Section 108 Loan Guarantees to overlapping or adjacent government entities in the city and county of Los Angeles, California, and in Kansas City, Missouri and Kansas City, Kansas.

Table 16: Section 108 Loan Guarantees for Supplemental Empowerment Zones and Enhanced Enterprise Communities

Local government entity	Amount in allocated Section 108 Loan Guarantees
Supplemental Empowerment Zones	
Los Angeles, Calif. (City)	$300 million
Los Angeles, Calif. (County)	$25 million
Cleveland, Ohio	$87 million
Enhanced Enterprise Communities	
Boston, Mass.	$22 million
Oakland, Calif.	$22 million
Houston, Tex.	$175 million
Kansas City, Mo.	$14.2 million
Kansas City, Kans.	$7.8 million
Total	**$653 million**

Source: HUD.

As of September 30, 2003, the eight local government entities that received Section 108 Loan Guarantees as part of the Supplemental Empowerment Zone and Enhanced Enterprise Community designations had used about 36 percent of the loan guarantees that HUD awarded (see table 17).

Table 17: Amount of Section 108 Loan Guarantees Awarded and Used as of September 30, 2003 (Dollars in thousands)

	Amount awarded	Amount used	% Drawn down
Supplemental Empowerment Zones	$241,000	$86,560	35.9%
Enhanced Enterprise Communities	$412,000	$151,741	36.8%
Total	**$653,000**	**$238,301**	**36.5%**

Source: GAO analysis of HUD data.

Designees' Use of Competitive Preferences Is Unknown

HUD and USDA expect EZs, ECs, and RCs to use their designations to attract additional investment. Businesses and community organizations in these communities can seek grants and loans from for-profit corporations, nonprofit entities, foundations, state and local governments, and other federal agencies. For example, a bank might help capitalize a community lending institution or a private foundation might contribute to a recreational facility for youths. In some cases, organizations or individuals

operating or residing in EZs, ECs, or RCs receive competitive priority for federal grants, loans, or technical assistance based solely on their EZ, EC, or RC designations. HUD and USDA officials said that during Round I of the EZ/EC program the Community Empowerment Board encouraged federal agencies to provide preferences to applicants from EZs or ECs in competition for federal funds. For example, communities designated as federal EZs, ECs, or RCs could receive a competitive preference for the Environmental Protection Agency's 2003 National Brownfields Assessment, Revolving Loan Fund, and Cleanup Grants.[65] In addition, in 2003, the U.S. Department of Education's Teacher Quality Enhancement Grants program provided a competitive priority to applicants who proposed to carry out activities in EZs or ECs.[66] In addition, Congress has regularly earmarked federal funds, such as grants for low-income housing repair or direct loans for rural development projects, to projects located in EZs and ECs.

The extent to which EZs, ECs, and RCs have taken advantage of competitive preferences is not known. Although HUD and USDA maintain data in their performance management systems on EZs', ECs', and RCs', use of other sources of funding, these systems do not differentiate whether the funding source included a preference for applicants located in EZs, ECs, or RCs. However, officials from HUD and USDA told us that their perception was that many federal agencies that provided competitive preferences to applicants located in EZ/ECs in Round I no longer offer these preferences. For example, one HUD official told us that the Department of Justice's Weed and Seed program, which provides assistance to communities for reducing crime and drug abuse and bringing in human services, no longer offers bonus points to applicants located in EZs, ECs, or RCs. One HUD official noted that the number of preferences offered might have decreased because the Community Empowerment Board disbanded.

[65]This program is intended to help recipients clean up brownfield sites.

[66]This program provides grants to promote improvements in the quality of new teachers with the ultimate goal of increasing student achievement in the nation's classrooms.

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Appendix VI: Summary of Evaluations of the EZ/EC Program

Author/Title	Purpose and scope	Primary methods and data used
Aigner, Stephen M., Cornelia B. Flora, and Juan M. Hernandez. "The Premise and Promise of Citizenship and Civil Society for Renewing Democracies and Empowering Sustainable Communities." *Sociological Inquiry* 71, no. 4 (2001): 493-507.	• To investigate the usefulness of several concepts (e.g., empowerment paradigm, citizen participation, and inclusion, civil society) in local sites' ability to leverage dollars for sustainable development. • 33 Round I rural EZ/ECs	• Collected data through existing data sources (e.g., educational and banking administrations) and USDA performance management system data • Performed descriptive statistical analysis
Chaskin, Robert J. and Clark M. Peters. *Governance in Empowerment Zone Communities: A Preliminary Examination of Governance in Fifteen Empowerment Zone Communities*. Chicago, IL: University of Chicago, Chapin Hall Center for Children, 1997.	• To examine the engagement of local actors in a process of planning and governance, and their place within the broader governance structure in the EZ/EC program • Round I urban, rural, EZs, ECs, Supplemental Empowerment Zones, and Enhanced Enterprise Communities	• Collected data through open-ended interviews and document reviews • Prepared case studies
Community Partnership Center. *Rural Empowerment Zones/Enterprise Communities: Lessons from the Learning Initiative. Findings and Recommendations of the Community Partnership Center EZ/EC Learning Initiative.* Knoxville, TN: Community Partnership Center, University of Tennessee, 1998.	• To assess, primarily from the perspective of local residents, how effectively the EZ/EC Program is carrying out the key principles • Round I rural EZ and ECs	• Collected data through participant observation of Learning Initiative Team workshops and document reviews of 1996 Annual Reports and executive summaries
Gittell, Marilyn, Kathe Newman, and Francois Pierre-Louis. *Empowerment Zones: An Opportunity Missed: A Six City Comparative Study*. New York, NY: The City University of New York, The Howard Samuels State Management and Policy Center, 2001.	• To determine the extent to which the EZ program achieved its goal of increased citizen participation through community organization • Round I urban EZs	• Collected data through open-ended interviews and document reviews • Prepared case studies
Gittell, Marilyn, and others. "Expanding Civic Opportunity: Urban Empowerment Zones." *Urban Affairs Review* 33, no. 4 (1998): 530-58.	• To assess the degree to which the participation of community-based organizations in the EZ strategic planning process has expanded community capacity • Round I urban EZs	• Collected data through open-ended interviews and document reviews • Prepared case studies

Major findings	Major limitations
• As the percent of individual citizens involved on a governing board increased, so did the number of women board members (in this study, women served as a proxy for how "inclusive" boards were in representing diverse groups). • Findings related to dollars leveraged relied heavily on the USDA performance management system data.	• The study findings are not generalizable outside of the sample studied. • Reviews by USDA's Inspector General stated that they had little confidence in the accuracy of the performance data. Therefore, such findings are not reported here.
• Community participation in governance structures was greater during the planning phase than during the implementation phase, because of difficulties of implementing projects in reasonable time frames.	• The study examined only the first year of the functioning of the EZs.
• All but one of the rural sites had made progress on at least some of their benchmark activities. • Citizen participation was identified as the most important aspect of the EZ/EC Program; however, recruiting and sustaining citizen participation over the long term is an on-going challenge in rural communities. • Sustained community participation seems to be influenced by the capacity of existing community-based organizations. • Effective EZ/EC boards are those that represent low-income communities and lessen the role of typical political players.	• Findings are not generalizable to other EZ/EC rural or urban sites. • Annual report and executive summary data were self-reported and were not independently verified. A lack of consistency across sites was observed.
• Although the EZ program was specifically designed to support the participation of local groups, that process was enforced only in the initial planning phase of the program. • During the implementation of the EZ program in designated cities, federal supervision diminished and local elites asserted their control.	• Time frames of the study are not completely clear.
• Community groups were underrepresented in EZ governance structures. • One year into the EZ process, there was little evidence that the program had contributed significantly to the development of community capacity.	• The study examined only the first year of the functioning of the EZs.

Author/Title	Purpose and scope	Primary methods and data used
Hebert, Scott, and others. *Interim Assessment of the Empowerment Zones and Enterprise Communities (EZ/EC) Program: A Progress Report*. Prepared for the U.S. Department of Housing and Urban Development Washington, D.C.: November 2001.	• To present an initial assessment of how the four EZ/EC principles have been interpreted and implemented and how the application of these principles may be contributing to the revitalization of the targeted communities[a] • Round I urban EZ/ECs	• Acquired commercially provided employment data • Performed longitudinal analysis of employment data during the 5 years before and the 5 years after designation • Collected data on business employment levels and attitudes toward the tax incentives through a telephone survey of zone businesses • Performed multiple regression models on survey data to determine whether use of the zone's financial incentives was associated with change in resident employment • Collected data using document reviews, open-ended interviewing, and comparative analysis to determine site resident participation in program governance, reinvention of government, and diversity of partnerships • Used agency performance management system data • Performed descriptive statistical analysis on performance data to examine the programs and activities that sites used to address physical and human development
Nathan, Richard P., and others. *Investing in a New Future: Special Report on Community Development Financing in Selected Empowerment Zone/Enterprise Community Sites.* Albany, NY: The Nelson A. Rockefeller Institute of Government, 1997.	• To compare commercial and residential lending activities and characteristics of these lending activities with respect to the Metropolitan Statistical Areas where the sites are located • 18 Round I urban EZs, ECs, Supplemental Empowerment Zones, and Enhanced Enterprise Communities	• Used loan data constructed by aggregating 1995 Home Mortgage Disclosure Act census tract-level data into 18 EZ/EC geographic areas • Conducted and analysis of residential lending activities • Used Small Business Administration data on commercial loans, which were constructed by apportioning and summing all the zip-code level data into 18 EZ/ECs and their respective geographical areas • Conducted and analysis of commercial lending activities
	• To determine the character of community input and governance in EZ/EC-funded community development activities • 18 Round I urban EZs, ECs, Supplemental Empowerment Zones, and Enhanced Enterprise Communities	• Collected data through document reviews • Prepared case studies

Major findings	Major limitations
• Between 1995 and 2000, employment of EZ residents grew faster in zones than in demographically similar neighborhoods in four of the six cities and in the six-city total. • Larger business establishments reported using tax incentives more frequently than smaller businesses. • Many small businesses were not aware of the tax incentives. • The number of business establishments owned by zone residents increased. • Both zone-resident owned businesses and small businesses located in zones were more likely to hire local zone residents. • There was a significant relationship between use of the EZ Wage Tax Credit and Section 179 Expensing Provision and the percentage change in the number of residents employed. • Local attention to building the capacity of zone residents to participate in zone governance has been extremely uneven. • Residents and community-based organization representatives combined constitute typically 50 percent of board memberships. • Program partnerships took many forms from temporary, loosely-organized associations, to long-term formalized alliances. • Reported findings on program activities relied entirely on the HUD performance management system data.	• It is not possible to determine whether zone designation caused employment rates to increase or whether rates increased for other reasons, such as general economic conditions or local initiatives. • Because of the low response rate, survey responses might be biased toward firms that favor the EZ. • Because the survey found that most small zone businesses were unaware of financial incentives, it is not plausible that these businesses could have been motivated by the financial incentives of which they were not aware. • Findings regarding ECs are based on a nonprobability sample and cannot be generalized to ECs that were not studied. • Particular cases in the analysis are identified as successes or failures, but the criteria for determining success or failure are not specified. • Zone governance was difficult to monitor. • Reviews by HUD's Inspector General stated that they had little confidence in the accuracy of the performance data. Therefore, such findings are not reported here.
• Home loans, measured as the loan activities per 1000 dwellings, were almost half as prevalent in the 18 EZs/ECs as in their corresponding Metropolitan Statistical Areas.	• No discussion of Home Mortgage Disclosure Act reliability was included in the report; however, GAO work has found these data to be sufficiently reliable for similar purposes.[b] • Report findings on commercial lending relied on Small Business Administration data, for which there is no knowledge about the reliability of the data. Therefore, such findings are not reported here. • The researchers did not control for other factors influencing the differences in lending activities in the 18 EZ/ECs when comparing with corresponding Metropolitan Statistical Areas. • Findings regarding ECs are based on a nonprobability sample and cannot be generalized to ECs that were not studied.
• Citizens in most communities were able to play a moderate to substantial role in the governance of their community's EZ/EC Initiative. • In all 18 study cities, citizens had some opportunity to advise local EZ/EC governing bodies and community development finance entities.	• Because the study covered only the years 1994-1997, insufficient time had passed when the study was published to draw definitive conclusions.

Author/Title	Purpose and scope	Primary methods and data used
(Continued from last page)		
Nathan, Richard P., and others. *Empowerment Zone Initiative: Building a Community Plan for Strategic Change. Findings from the First Round Assessment of the Empowerment Zone/Enterprise Community Initiative.* Albany, NY: The Nelson A. Rockefeller Institute of Government, 1997.	• To summarize community participation in the strategic planning, governance, and benchmarking processes for the beginning of the program • 18 Round I urban EZs, ECs, Supplemental Empowerment Zones, and Enhanced Enterprise Communities	• Collected data through document reviews of site descriptions of the strategic planning • Performed a comparative analysis of types of program strategies across sites
Reid, J. Norman and Karen Savoie Murray. "Empowering Rural Communities: A Perspective at the Five-Year Point." Paper presented at the annual meeting of the Rural Sociological Society, Washington, D.C., August 2000.	• To make a preliminary exploration of performance data on program implementation • Round I and Round II rural EZ/ECs	• Collected data through document reviews and site visits • Used USDA performance data • Performed descriptive statistical analysis of data
U.S. General Accounting Office. *Community Development: Businesses' Use of Empowerment Zone Tax Incentives.* GAO/RCED-99-253, (Washington, D.C.: September 30, 1999).	• To examine the extent to which businesses used the program's three initial tax incentives and other tax incentives, and determine reasons why in some cases the incentives were not used • Round I urban and rural EZs	• Surveyed 2,380 businesses located in nine federal designated EZs. Surveys were mailed to 513 large businesses and 744 small businesses in urban EZs, and 1,123 to businesses in rural EZs • Analyzed the results of the surveys

Major findings	Major limitations
• In 11 of the study cities, including all six EZs, citizens were provided with some means of citizen participation and involvement in the governance of various community development initiatives. • There were few instances in which zone residents and stakeholders actually controlled the allocation of EZ/EC resources.	
• The strategic planning process often began as a city-government process and evolved into a more community-directed process headed by steering committees of 20 to100 members. • The most common governance structure was at least moderately integrated into the city government and used one central structure to oversee the Initiative. • Cities with considerable community control over plan development tended to have an existing citizen participation structure that could be used as a foundation to initiate planning efforts. • Citizen influence was greatest in determining site strategies and program activities. • Citizen participation decreased as the initiative moved from planning to implementation. • Citizen participation was reported to be higher in the EZ/EC Initiative than in other similar federal initiatives. • Most cities did not have grassroots participation. • Community participation was greater in the early phases of the benchmarking process.	• Findings regarding ECs are based on a nonprobability sample and cannot be generalized to ECs that were not studied. • Local sites provided self-reported data to the authors, which were not independently verified.
• Reported findings relied heavily on the USDA performance management system data.	• Reviews by USDA's Inspector General stated that they had little confidence in the accuracy of the performance data. Therefore, such findings are not reported here.
• The employment credit was the most frequently used tax incentive, especially by the larger businesses. • Businesses that used the employment credit cited it as somewhat important in their hiring decisions. • The most frequently cited reason for not using the credit was that their employees lived out of the zones or that they did not know about the credit.	• Because more than half of the large urban businesses and rural businesses did not respond to the surveys, the survey results only reflect actual usage of the incentives. • The estimates based on the surveys might be imprecise because of the sampling error associated with estimate.

Author/Title	Purpose and scope	Primary methods and data used
Fahui Wang and Joseph A. Van Loo. "Citizen Participation in the North Delta Mississippi Community Development Block Grants, Empowerment Zones and Enterprise Communities." *Planning Practice and Research* 13, no. 4 (1998): 443-51.	• To examine citizen participation in the EC catchment area compared with the community development block grant catchment area • North Delta Mississippi EC	• Collected data through participant observation and document reviews

Major findings	Major limitations
• Citizen participation outreach efforts were more extensive in the EC program than in the community development block grant program. • Citizen involvement was more extensive and more meaningful (i.e., participation in strategic planning and decision making) in the EC program than in the community development block grant program.	• The findings are specific to this EC site and cannot be generalized to ECs that were not studied. • The authors could not determine to what extent citizen participants in each program were representative of the larger population living in the target areas, and therefore, to what extent key factors, such as socioeconomic status, might have influenced citizen participation.

[a]The four key principles of the EZ/EC program are strategic vision, economic opportunity, community-based partnerships, and sustainable community development.

[b]U.S. General Accounting Office, Public Housing: HOPE VI Resident Issues and Changes in Neighborhoods Surrounding Grant Sites, GAO-04-109, (Washington, D.C.: November 2003).

Appendix VII: Comments from the Department of Housing and Urban Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

FEB 17 2004

Mr. Charles Wilson
Assistant Director
Financial Markets and community Investment Team
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548-0001

Dear Mr. Wilson:

The purpose of this letter is to provide our comments to the General Accounting Office's (GAO) draft report, GAO-04-306 entitled "Community Development Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited that was transmitted to us on February 3, 2004.

The Office of Community Planning and Development (CPD) concurs with the findings of GAO that the Empowerment Zone/Enterprise Community (EZ/EC) and Renewal Community (RC) programs are well under way, yet qualitative benefit data, from which an analysis may be ascertained, are limited at this time. HUD agrees that the benefit of the tax incentives authorized by the Community Renewal Tax Relief Act of 2000 is still unknown.

The following considerations should be added to the GAO report when it is issued to Congress and the public:

1. HUD's Office of Community Renewal (OCR), which administers the EZ and RC program, is developing a strategy to use available federal agency resources to develop the data needed to assess current utilization of the tax incentives by the 329,000 businesses in the HUD-designated RCs and EZs. This effort will include reaching out to OCR's counterparts in the Office of Policy Development and Research in HUD, the Department of Agriculture (USDA), and the Internal Revenue Service (IRS).

2. To respond to findings and recommendations of HUD's Office of Inspector General (OIG) and as part of CPD's **ongoing effort** to improve the quality of information on the programs we administer, OCR has developed the following:

   - A proposed rule on resident benefit and eligible uses of Round II EZ funds, to be published in the Federal Register this spring;

www.hud.gov espanol.hud.gov

- A Round II EZ Desk Officer guidebook with instructions for reporting on the progress assessments in the on-line Performance Measurement System (PERMS);
- Policy and guidance on third-party contracts as it relates to Round II EZs;
- Improved and refined financial procedures and controls on the Round II EZ funds drawdown system (LOCCS); and
- Improved risk assessment and monitoring guidance, which is provided to both grantees and HUD field offices.

3. The Internal Revenue Service (IRS) has assisted CPD/OCR in answering technical questions on the RC and EZ tax incentives and participated in HUD's training conferences and workshops along with other events to educate community leaders, accountants, and businesses on the tax incentives. We will continue in our efforts to work with IRS in compiling the necessary data to measure the tax benefits that have been realized.

4. The progress assessments using information from PERMS are pursuant to statutory requirements for HUD to determine if the EZ/ECs and RCs are making adequate progress in implementing their strategic plans and tax incentive utilization plans. The procedures to verify the data in PERMS and perform the progress assessments are different from the procedures that CPD follows when we monitor grants, including the HUD EZ grants, because the purpose of grant monitoring is for funds control and to enforce other federal legal requirements.

5. Based on the HUD OIG's 2003 audit recommendations, OCR is taking steps to improve data accuracy in PERMS, as noted above.

If you have any questions concerning the above comments, please call Ms. Pamela Glekas Spring, Director, Office of Community Renewal, on (202) 708-6339.

Sincerely,

Donald P. Mains
Deputy Assistant Secretary
for Economic Development

Appendix VIII: Comments from the Internal Revenue Service

COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

February 19, 2004

Mr. William Shear
Director, Financial Markets and Community Investment
United States General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Shear:

The Internal Revenue Service reviewed your draft report, *Federal Revitalization Programs are Being Implemented, but Data on the Use of Tax Benefits are Limited (GAO-04-306)*. The Statistics of Income Division provided data on the available tax benefits to the General Accounting Office and these data are accurately reflected in the draft report.

We concur with the recommendation that the IRS work with the Department of Housing and Urban Development and the Department of Agriculture to identify the data needed to assess the use of the tax benefits of revitalization programs and estimate the cost of collecting these data. The Service will also consult with Treasury's Office of Tax Policy to see if the recommendation's benefits would outweigh its costs (including the increased taxpayer burden to collect the data).

Thank you for the opportunity to comment on this draft report. If you have any questions, or would like to discuss this response in more detail, please contact Floyd Williams, Director of Legislative Affairs, at (202) 622-4725.

Sincerely,

for Mark W. Everson

Appendix IX: Comments from the U.S. Department of Agriculture

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

FEB 17 2004

TO: William Shear
Director, Financial Markets and Community Investment
United States General Accounting Office

FROM: Gilbert G. Gonzalez
Acting Under Secretary
Rural Development

THROUGH: Sherie Hinton Henry Sherie Hinton Henry 2/11/04
Deputy Administrator
for Operations and Management Division

SUBJECT: Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited, Audit Number GAO-04-306

Thank you for providing the United States Department of Agriculture (USDA) and Rural Development with your draft report, "Community Development: Federal Revitalization Programs are Being Implemented, but Data on the Use of Tax Benefits are Limited." I would like to offer the following comments for your consideration, and ask that a copy of this response be included in your final report.

The Renewal Community (RC) program is entirely under the purview of the United States Department of Housing and Urban Development (HUD). This response is, therefore, limited to the portion dealing with the Empowerment Zone and Enterprise Community (EZ/EC) program.

The GAO report addresses only two program tools (grants and tax incentives) and focuses primarily on the latter. In so doing, it neglects the broader purpose behind the EZ/EC program: empowering impoverished communities to plan for and achieve their own goals through holistic means. This type of community development is designed to employ many actors and use a wide array of tools. Tax incentives were simply one of those tools that communities could choose to use to help draw businesses into Zones and to prompt businesses to hire Zone residents.

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The report concludes on pages 32 and 43 that a lack of data on the use of tax incentives limits the ability of the communities to attract additional resources. This conclusion assumes that the only way communities can successfully leverage their resources is by using the tool upon which the report primarily focuses. The data generated from the communities themselves show that the EZ/ECs, on average, leveraged every program dollar with 16 other dollars brought in from other sources.

Those data are generated from Rural Development's Benchmark Management System (BMS). The BMS is an online reporting system that collects EZ/EC performance data submitted by the communities themselves. The report notes, however, that the USDA Inspector General's office has raised concerns about the reliability of those data, suggesting the reliability of BMS data is wholly dependent upon the communities themselves. In reality, the BMS information is monitored and verified by Rural Development staff in our State Offices and at the National Office. Moreover, the statements regarding the BMS do not accurately reflect its appropriate use or utility. BMS is employed not as an audit or accounting tool of the EZ/EC program but as a management instrument and, as such, does an effective job at capturing the successes and trend lines for the program.

On page 19, the report briefly outlines some of the other benefits that accrued to "certain designees." This short list is focused on grants, loans, or ways to further facilitate grants or loans. The report does not mention that for the first two years of the program, USDA funded an effective AmeriCorps program within EZ/EC and Champion communities. This resource provided community capacity-building early in the rural EZ/EC program. The AmeriCorps members reached out to the disadvantaged and disenfranchised in communities. Their work provided much of the backbone of continuing citizen participation in the program. USDA's AmeriCorps members were largely responsible for local program penetration into rural neighborhoods, which is where the projects outlined in the strategic plan had to come to fruition. The report passed over this and other human-to-human aspects of the program in favor of more typical quantitative measurements, such as how many grant dollars were distributed.

The report's conclusions and recommendations on page 43 focus on only a small portion of the overall EZ/EC program. Furthermore, even though USDA would welcome the opportunity to further collaborate with its Federal partners in the Internal Revenue Service (IRS) and HUD, we are concerned about suggestions that would stretch USDA's already scarce resources to produce data of possibly marginal utility. There is also real concern about taking steps that could invade taxpayers' privacy.

There are also a few technical details that need correction or further explanation:

- Page 9, first paragraph - The Community Empowerment Board was indeed disbanded prior to Round III of the EZ program, but no explanation is included as to why this occurred.
- Page 13, Footnote 14 - The text leads the reader to the conclusion that the Secretary of Agriculture unilaterally decided that outmigration should be a selection criteria. In fact, the legislation authorizing Round II provided this opportunity.
- Page 15, Footnote 18 - This same appropriations legislation also provided $1 million for the two rural Round III Zones.
- Page 16, Table 6 - The allocations per EZ in 2000 was $2,000,000 and in 2002 was $1,996,000.
- Page 26, Figure 4 - The average area of the Round II rural Empowerment Zones is incorrect. The correct figure is 725.2.
- Page 36, second paragraph - Round III rural EZ reporting requirements are exactly the same as the other EZ/EC communities, not less stringent.
- Page 37, second paragraph - The statement "In 1997 we reported that EZ/EC were not consistently reporting their progress to USDA, and USDA's EZ/EC state coordinators did not provide systematic reporting on the progress of rural EZ/EC" is accurate. It fails, however, to mention that we addressed this deficiency by adopting a nationwide community development field training program. In addition, there is no mention of the newly adopted Rural Development Field Structure Consistency Plan that has devolved many EZ/EC administration duties to our State Offices.

Thank you for this opportunity to comment on the report. If you have any questions, please contact John M. Purcell, Director, Financial Management Division, at (202) 692-0080.

Appendix X: Comments from the Department of Health and Human Services

DEPARTMENT OF HEALTH AND HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
Office of the Assistant Secretary, Suite 600
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

DATE: FEB 18 2004

TO: William Shear
Director, Financial Markets
and Community Investment

FROM: Wade F. Horn, Ph.D.
Assistant Secretary
for Children and Families

SUBJECT: GAO Draft Report, "Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited," (GAO-04-306)

The Administration for Children and Families' Office of Community Services has no comments on the above-referenced report.

If you have any questions, please contact Robert Mott, Deputy Director, Office of Community Services, at (202) 401-5291.

Attachment

COMMENTS OF THE ADMINISTRATION FOR CHILDREN AND FAMILIES ON THE GENERAL ACCOUNTING OFFICE'S DRAFT REPORT, "COMMUNITY DEVELOPMENT: FEDERAL REVITALIZATION PROGRAMS ARE BEING IMPLEMENTED, BUT DATA ON THE USE OF TAX BENEFITS ARE LIMITED," (GAO-04-306)

The Administration for Children and Families' (ACF) Office of Community Services (OCS) appreciates the opportunity to comment on this draft report.

GAO Recommendations:

To facilitate the administration, audit, and evaluation of the Empowerment Zone and Enterprise Zone programs and Renewable Communities programs, we recommend that the Department of Housing and Urban Development, the United States Department of Agriculture, and the Internal Revenue Service collaborate to (1) identify the data needed to assess the use of the tax benefits and the various means of collecting such data; (2) determine the cost-effectiveness of collecting these data, including the potential impact on taxpayers and other program participants; (3) document the findings of their analysis; and, if necessary (4) seek the authority to collect the data, if a cost-effective means is available.

ACF Comments:

ACF's OCS has reviewed this draft report and has no comments at this time.

Appendix XI: GAO Contacts and Staff Acknowledgments

GAO Contacts

William Shear (202) 512-8678
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Acknowledgments

In addition to those individuals named above, Jonathan Altshul, Susan Baker, Daniel Blair, Mark Braza, Emily Chalmers, Patricia Farrell Donahue, David Dornisch, DuEwa Kamara, Terence Lam, Alison Martin, Grant Mallie, John McGrail, John Mingus, Marc Molino, Gretchen Maier Pattison, Minette Richardson, and Michael Simon made key contributions to this report.

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