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**Urban Policy - Empowerment  
Zones**

▶ Paul J. Weinstein Jr.  
06/08/98 02:18:16 PM  
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Record Type: Record

To: Gene B. Sperling/OPD/EOP, Bruce N. Reed/OPD/EOP  
cc: See the distribution list at the bottom of this message  
Subject: EZ Funding Update

Julian Potter of the Vice President's Office and I have had meetings on funding the Second Round of EZs with staff from the offices of Sens. Roth, Moynihan, Warner, and Robb. We will also be meeting this week with staffers in Sens. Braun and Jeffords office followed by a joint meeting next week with all the above.

Slowly, the outlines of a potential deal in the Senate are coming into place. Sens. Warner and Robb are possibly interested in doing a bipartisan bill that would: 1) Give a very high preference in the awarding of Round II EZs to high-performing Round I ECs; 2) Cut the grant amount for Round II Urban EZs from \$100 million and Rural EZs from \$40 million. Although it is not clear what the new grant award would be, the range is probably \$40 to \$75 million for urban zones and around \$20 million for rural zones; 3) Siphon off some funds from the Round II EZ grants and create a pool of money that could be used to finance new projects in the existing ECs over the next ten years; 4) Create a small pool of funding (maybe \$1 to \$2 million to) to provide planning grants to rural ECs.

Obviously, we need to discuss all these items further; however, assuming there is enough money for the Round II Zones -- around \$50 million for each urban and \$25 million for all the rural zones -- both Julian and I believe this kind of compromise would be acceptable to the Administration. We will keep you all posted.

Message Copied To:

- Elena Kagan/OPD/EOP
- Cecilia E. Rouse/OPD/EOP
- Jonathan Orszag/OPD/EOP
- Elizabeth J. Potter/OVP @ OVP
- Jose Cerda III/OPD/EOP
- Janet Murguia/WHO/EOP
- Emil E. Parker/OPD/EOP

Urban policy -  
empowerment zones



● Paul J. Weinstein Jr.

01/08/98 05:13:37 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Gene B. Sperling/OPD/EOP, Elena Kagan/OPD/EOP  
cc: Emil E. Parker/OPD/EOP, Jonathan Orszag/OPD/EOP, Jose Cerda III/OPD/EOP, Michael  
Deich/OMB/EOP  
Subject: EZ Round II

According to Julian Potter of the VP's staff, the Vice President has apparently made his decision regarding the timetable for designating the Round II winners. He has chosen Option II (the HUD, OMB, NEC option).

Urban policy - empowerment zones

First part to Paul

Paul -

I'm sure I should

December 1, 1997

know, but what  
happened in this?

*Elena*

MEMORANDUM FOR THE VICE PRESIDENT

FROM: Julian Potter

CC: Gene Sperling  
Bruce Reed

SUBJECT: **Decision Memorandum on Second Round  
Empowerment Zone Designations**

The purpose of this memo is twofold. First, to outline the budgetary and programmatic constraints surrounding the implementation of a second round of Empowerment Zones (EZ); and second, to present options regarding the designation process for a second round of Empowerment Zones.

The CEB has been coordinating discussions with the NEC, DPC, OMB, HUD, USDA and Treasury on the development of realistic and sound proposals for your review. Several iterations of a designation strategy were reviewed by the Board but a thorough analysis proved them to be legislatively, programmatically or administratively infeasible. In the final analysis, two different options emerged which reflect the positions of the leadership on the CEB.

**I. Background**

The premise of the Empowerment Zone Initiative is to provide a holistic approach to revitalizing our nation's distressed urban and rural areas. The first round application process provided communities with incentives to develop a comprehensive community-driven strategic plan. The Federal government supported that process by providing generous tax incentives and a flexible block grant of Title XX funds.

Although the premise of the EZ Initiative has not changed, there is no grant funding available at this time and the tax benefit package available for Round II

designations has been reduced and does not currently support the holistic and comprehensive approach set forth in the first round.

## **II. Programmatic and Budgetary Constraints of Round II**

The Taxpayer Relief Act of 1997, signed into law by the President on August 6, provides the statutory authority for 20 new EZ designations (15 urban and 5 rural). The statute calls for the new zones to be designated by January 1, 1999. The Act however, only provides new tax incentives to support those zones.

### **1. Grant Benefits Are Uncertain, Less Generous And Not As Flexible**

The main difference between Round I and Round II is a reduction in the amount and flexibility of grant funding available at the time of application. Round I was funded through a flexible block grant of \$100 million for EZs and \$3 million for ECs. This block grant provided communities with the opportunity to develop a comprehensive strategic plan that was tailored to locally driven needs and resources.

Round II grant funding was proposed in the President's budget under a 3 year scenario (1998-2000). Unfortunately, Congress has appropriated only \$5 million to HUD for planning and technical assistance and \$73 million to USDA in earmarked funds for first and second round rural EZ/ECs. In addition, DOL has received a \$250 Million advance appropriation for categorical "Out of School Youth" grants (a portion may be made available to Round II designations in 1999). Compared to the first round, this is a significant reduction in the amount of grant funding available to second round zones.

### **2. Tax Benefits Are Reduced**

The 1997 Taxpayer Relief Act included a different mix of tax benefits for Round II designations. The major decline in benefits from Round I to Round II is the loss of the Wage Tax Credit, which is the benefit considered to be most significant for Round I EZ's. Treasury estimates the revenue impact of a first round EZ designation to be \$30 million annually. For the second round, Treasury estimates the revenue impact of a new EZ designation to be \$5 million annually. That is an estimated annual reduction of \$25 million in tax benefits per zone

*Note: These estimates are based on economic data; not on actual tax filing data.*

### **3. The Pool Of Potential Second Round Applicants Has Been Increased**

During the first round, 520 communities competed for 105 urban and rural EZ/EC designations. One out of every 5 communities that applied won an EZ or EC designation. Potential applicants for the second round Empowerment Zone designation include: 1) 415 Champion communities (applied in 1994 but did not win a designation); 2) 94 Enterprise Communities (eligible for EZ status); and 3) Newly eligible areas (20% poverty areas, out migration areas, Indian Tribes, and the states of AK and HI). The second round has a potential applicant pool of +500 with only 20 EZ designations. This creates a potential applicant to awardee ratio of 25:1.

### **III. Proposed Designation Strategies: Presented in order of designation date**

#### **Option 1: Two-Step Application Process: Designation May 1998**

This strategy would announce a competition in early 1998 and have communities apply for EZ designation by submitting a short plan focused on the usage of tax incentives. The 20 EZ designations would be made in May, 1998. Communities would develop a comprehensive strategic plan based on the President's budget request for flexible grant funds. Communities would finalize their plan after Congress approves the budget.

The DPC supports this option and believes that it is unfair to ask communities to go through the difficult and complicated process of developing a comprehensive strategic plan without sizable, flexible grants. On the other hand, they also believe it is mistake to deny communities the opportunity to take advantage of the currently available tax incentives until December 1998. Treasury is inclined to support this option only if additional agency grant funds from FY98 budget are included.

Step-one: In December a menu of tax incentives will be announced. Communities would be asked to put together a short application which identifies private sector commitments and partners that would be used to leverage the tax incentives. Designations would be announced by the end of May 1997.

Step-two: The twenty designated communities would receive a planning grant to put together a more comprehensive strategic plan, similar to the type submitted by first round winners. Plans would be submitted in the Fall to HUD and USDA. Assuming the Administration secures funds from Congress you would announce the amounts awarded to the second round EZs by the end of December 1998.

#### **Advantages**

- Insures earliest possible use of tax incentives which are already available to designated communities;
- Reduces waiting period for making awards;
- Creates a small pool of 40 Senators and 20 Representatives who are vested in obtaining the flexible grant funds;
- Allows the Administration to move through the difficult process of choosing twenty winners out of very large pool of applicants at a quicker pace.

### **Disadvantages**

- Criticism from Rural Communities for not allowing enough time or providing appropriate technical expertise for communities to put together the smaller "tax focused" plan;
- Only the 20 designations will be required to develop a comprehensive strategic plan, instead of all the original applicants;
- If you announce the winners before going to Congress to seek the additional funds for the grant side of the program, you severely limit the number of members interested in funding the program;
- If flexible grants are not approved by Congress, we will have created a program that is associated with a "Kemp-styled strategy", which does not even include a wage tax credit.

### **Option 2: Modified First Round Approach: Designation in December 1998**

This strategy would announce a competition in early 1998 and provide communities ample time (5-7 months) to prepare a holistic strategic plan based on the President's budget request for flexible funds. Communities would finalize their plans after Congress approves the budget. Round II designations would be made in December, 1998.

Supporters of this option, which include HUD, USDA, OMB, and the NEC, believe the grants available in the FY98 budget do not support a viable second round of Empowerment Zones. These agencies argue that under the currently available appropriations (\$5 million for HUD and \$73 million for rural zones USDA), it would be difficult for communities to develop the type of comprehensive, locally-driven plan that is the foundation of the Administration's EZ/EC program. Proponents of this proposal recommend the Administration include proposed flexible funding in the application phase of the program and designate when funding is secured. This strategy follows more closely the spirit of the first round.

Under this approach, the Administration would send out applications in early March, after the President's budget has been announced in February. Communities interested in applying would be asked to develop comprehensive strategic plans that would include proposals for spending flexible grants that would be included on the mandatory side of the FY99 budget. Once a final budget has been passed by Congress, applicants would receive a final grant number to apply towards the budget of their strategic plan. Applications would be reviewed in November and the announcement of the twenty EZ designees would occur in December 1998.

### **Advantages**

- A combination of tax incentives and flexible grants is most likely to produce tangible results and comprehensive revitalization based on early results from Round I;
- Delineates the Administration's Empowerment Zone program from a "Kemp styled tax-based" Enterprise Zone program;
- Clearly maintains the integrity and comprehensive nature of the program, by recreating a comprehensive planning and application process that many communities have identified as one of the most beneficial aspects of the EZ program;
- Creates a large pool of applicants who can pressure Congress to commit to providing flexible grant funds;
- Addresses concerns of the Public Interest Groups and GAO that the designation process allow rural communities and new applicants enough time to prepare a strategic plan;
- Excitement generated by hundreds of applicants will create a positive visible constituency.

### **Disadvantages**

- Raises expectations of communities by requiring EZ applicants to develop strategic plans based on funds that are not yet appropriated;
- Opens Administration up to criticism from communities and Congress for not making tax incentives available in a timely manner;
- There is no guarantee the Administration will be successful in obtaining Congressional approval for flexible grants next year.

### **IV. Legislative Outlook**

Understanding that there will be legislative obstacles to securing grant funding because this is such a high profile administration initiative and that we are moving



into an election year, a major factor in choosing a designation strategy is how to garner Congressional support. Proponents of Option 1 believe that it would be more advantageous to choose the 20 designations before going to Congress. This would secure a core group of legislators, but support would only be expected from 40 Senators and 40-50 Representatives.

Option 2 argues that an open competition will generate excitement and potential EZ designation status for hundreds of communities. This broad application strategy will create a strong and vocal constituency that supports flexible grant funding. Clearly the strategy that potentially benefits the most congressional members, thereby generating the broadest support, should be pursued. This strategy is Option #2.

#### V. Recommendation

The staff of the CEB recommends Option # 2. This choice is based upon selecting a designation strategy that provides communities with the best possible opportunity for comprehensive sustainable development.

#### VI. Decision

\_\_\_\_\_ Option 1

\_\_\_\_\_ Option 2

\_\_\_\_\_ Discuss Further

u-ban policy - empowerment  
zones

November 18, 1997

MEMORANDUM FOR THE PRESIDENT  
THE VICE PRESIDENTFROM: RON KLAIN  
BRUCE REED  
GENE SPERLINGSUBJECT: Decision Memorandum On Timing of Second Round  
Empowerment Zone Designations

The purpose of this memo is twofold. First, to outline the budgetary and programmatic constraints surrounding the implementation of a second round of Empowerment Zones (EZ); and second, to present options regarding the timing of the second round designations.

**I. Background**

The premise of the Empowerment Zone Initiative is to provide a holistic approach to revitalizing our nation's distressed urban areas. The first round application process provided communities with incentives to develop a comprehensive community-driven strategic plan. The Federal government supported that process by providing generous tax incentives and a flexible block grant of Title XX funds.

Although the premise of the EZ Initiative has not changed, the grant funding and tax benefit package available for Round II designations has been reduced and does not currently support the holistic and comprehensive approach set forth in the first round.

**II. Programmatic and Budgetary Constraints of Round II**

The Taxpayer Relief Act of 1997, signed into law by the President on August 6, provides the statutory authority for 20 new EZ designations (15 urban and 5 rural). The statute calls for the new zones to be designated by January 1, 1999. The Act also provides for new tax incentives to support those zones.

**1. Grant Benefits Are Uncertain, Less Generous And Not As Flexible**

The main difference between Round I and Round II is a reduction in the amount and flexibility of grant funding available at the time of application. Round I was funded through a flexible block grant of \$100 million for EZs and \$3 million for ECs. This block grant provided communities with the opportunity to develop a comprehensive strategic plan that was tailored to locally driven needs and resources.

Round II grant funding was proposed in the President's budget under a 3 year scenario (1998-2000). Unfortunately, Congress has appropriated only \$5 million to

HUD for planning and technical assistance and \$73 million to USDA for first and second round rural EZ/ECs. In addition, DOL is seeking appropriations for between \$100-250 Million in categorical "Out of School Youth" funding for competitive grants. Compared to the first round, this is a significant reduction in the amount of grant funding available to second round zones.

## **2. Tax Benefits Are Reduced, Yet Their Accessibility Has Been Enhanced**

The 1997 Taxpayer Relief Act included a different mix of tax benefits for Round II designations. The major decline in benefits from Round I to Round II is the loss of the Wage Tax Credit. Treasury estimates that the revenue impact of a first round EZ designation to be \$30 million annually. For the second round, Treasury estimates that the revenue impact of a new EZ designation \$5 million per zone. That is an estimated annual reduction of \$25 million in tax benefits per zone.

*Note: These estimates are based on economic data; not on actual tax filing data.*

Although Round II tax benefits are estimated to have less tax impact than Round I, their accessibility has been enhanced by moving tax exempt facility bonds outside state volume caps and liberalizing small business expensing benefits. In addition, EZ/EC designations are also eligible for the Brownfields Tax Incentive, the Work Opportunity Tax Credit for EZ Youth, Academy Bonds and Welfare to Work tax credits.

## **3. The Pool Of Potential Second Round Applicants Has Been Increased**

During the first round, 520 communities competed for 105 urban and rural EZ/EC designations. One out of every 5 communities that applied won an EZ or EC designation. Potential applicants for the second round Empowerment Zone designation include: 1) 415 Champion communities (applied in 1994 but did not win a designation); 2) 94 Enterprise Communities (eligible for EZ status); 3) "First time applicants" (20% poverty, out migration areas, Indian Tribes, AK and HI)

The second round has a potential applicant pool of + 500 with only 20 EZ designations. This creates a potential applicant to awardee ratio of 25:1.

### **III. Proposed Designation Strategies**

#### **Option 1: Modified First Round Approach**

This approach follows more closely the spirit of the first round. Supporters of this option, which include HUD, USDA, OMB, and the NEC (?), believe the grants available in the FY98 budget do not support a viable second round of Empowerment Zones. These agencies argue that under the currently available appropriations (\$5 million for HUD and \$71 million for USDA), it would be difficult to rationalize asking communities to develop the type of comprehensive, locally-driven plan that is the foundation of the Administration's EZ/EC program. Proponents of this proposal recommend the Administration withhold designation until additional funding is secured.

Under this approach, the Administration would send out applications in early March. Communities interested in applying would be asked to develop comprehensive strategic plans that would include proposals for spending flexible grants that would be the mandator on the mandatory side of your FY98 budget. All applications would be due by the end of December, assuming Congress would agree to your budget request in reconciliation no later than August. You would then announce the twenty EZ designees in December.

If Congress chooses not to fund any of your budget submission, we would send out an application clarification and award the tax incentives in late November.

#### **Advantages**

- Delineates the Administration's Empowerment Zone program from a "Kemp tax-based" Enterprise Zone program. Reinforces the view that combining tax incentives and flexible grants is most effective in creating economic development in distressed areas.
- Clearly maintains the integrity and comprehensive nature of the program;
- Recreates the comprehensive planning and application process that many communities have identified as one of the most beneficial aspects of the EZ program;
- Creates a large pool of applicants who can pressure Congress to commit to providing flexible grant funds.

#### **Disadvantages**

- Raises expectations that flexible funds will be available next Fall by requiring EZ applicants to develop strategic plans that spend funds that do not exist;
- Opens Administration up to criticism from communities and Congress for not making tax incentives available in a timely manner;
- No guarantee the Administration will be successful in obtaining Congressional approval for flexible grants next year;
- The Administration will have to delay "victory" until full grant benefits are secured;

#### **Option 2: Two-Step Application Process**

Proponents of this approach, which include the DPC and (?), agree that it is unfair to ask communities to go through the difficult and complicated process of developing a comprehensive strategic plan without the incentive of sizable, flexible grants. On the other hand, they also believe it is mistake to deny communities the opportunity to take advantage of the currently available tax incentives until December 1998. Under this two-step process, the Administration would designate the 20 EZs in the Spring. The EZs would receive the available tax incentives and planning grant funds. Once additional funds were secured from Congress, the twenty designees would compete among themselves for a pool of flexible grants.

Step-one: In December a menu of tax incentives and planning grant money will be

made available. The application would be short and focus on asking communities to identify private sector commitments and partners to leverage the tax incentives. Designations would be announced by the end of May 1997.

**Step-two:** The twenty designated communities, utilizing their planning grant money, would be asked to put together a more comprehensive, strategic plan, similar to the type submitted by first round winners. The plans would include performance goals and measurements. The plans would be submitted in the Fall to HUD and USDA. Assuming the Administration secures funds from Congress, you would announce the amounts awarded to the second round EZs by the end of December. One possible twist on this option would be to allow the first round EZs and Enterprise Communities (EC) to apply for the funds as well.

#### **Advantages**

- Insures earliest possible use of tax incentives which are already available to designated communities. Streamlines application process and reduces waiting period for making awards;
- Insures that at least twenty communities would go through the same type of beneficial application/strategic planning process that first round applicants experienced.
- Creates a pool of 40 Senators and 20 Representatives who are vested in obtaining the flexible grant funds.
- Allows the Administration to move through the difficult process of choosing twenty winners out of very large pool of applicants at a quicker pace;

#### **Disadvantages**

- Only the twenty designees will develop comprehensive/strategic plans instead of the all the applicants.
- If you announce the winners before going to Congress to seek the additional funds for the grant side of the program, you may decrease the chances for success in obtaining grants from Congress..
- If flexible grants are not approved by Congress, creates association with tax based "Kemp styled strategies;"

#### **IV. Recommendation**

The working group on Community Empowerment was unable to reach a consensus. HUD, USDA, OMB, and the NEC (?) recommend Option 1. DPC and (?) recommend Option 2.

#### **V. Decision**

\_\_\_\_\_ Option 1

\_\_\_\_\_ Option 2

\_\_\_\_\_ Discuss Further

Urban policy -  
empowerment zones



● Paul J. Weinstein Jr.

10/01/97 11:55:30 AM

Record Type: Record

To: Elizabeth J. Potter/OVP @ OVP

cc: Jose Cerda III/OPD/EOP, Emil E. Parker/OPD/EOP, Jonathan A. Kaplan/OPD/EOP

Subject: Empowerment Zone Option

## PROPOSAL

The Domestic Policy Council (DPC) recommends a "fast track" announcement of the Second Round Empowerment Zone (EZ) designees. We believe that the financial benefits available to the Second Round EZs do not warrant a long, extended application process. With only tax incentives and small sums of targeted, categorical grant funding available, we believe it would be a mistake to ask applicants to put together an extensive, comprehensive strategic plan. Instead, the DPC recommends a streamlined application process which would allow the designations to be awarded no later than the end of March. We propose that applicants respond to two questions: 1) how they will encourage the private and non-profit sectors to utilize the various tax incentives to promote economic opportunity, job creation, and sustainable development (brownfields); 2) how do they plan to utilize the categorical grants (in accordance with the program regulations) and how will the applicants work with community groups and the private sector to leverage these dollars?

Because of the lack of a large pool of flexible funds, we understand certain individuals are proposing that we not refer to the designees as EZs. We want to make clear our opposition to such a position. While the second round incentives are not as generous as the first round (and we need to make that clear up front in the application), in no way should we place the President or the Vice President in a position where they are not able to claim they victory in fulfilling their promise of a second round. The second round EZs are just that, EZs. To not claim victory makes no political sense.

## PROPOSED TIMELINE:

December 20 -- Applications are sent out to prospective applicants.

February 20 -- Applications are due to HUD and USDA.

March 15 -- HUD and USDA advise the CEB and Vice President of their proposed designees.

March 30 -- The designees are announced.

## ADVANTAGES

- \* Insures earliest possible use of tax incentives which are already available to designated communities.
- \* Allows communities to put into effect their plans at a much earlier date. Thus, we will have

positive results to hopefully talk about prior to the 2000 general election.

- \* Allows the Administration to move through the difficult process of choosing twenty winners out of very large pool of applicants at a much quicker pace.
- \* Eliminates unnecessary paperwork.
- \* Reduces unnecessary waiting period for making awards.
- \* Insures the announcing of the designees before the 1998 election while not violating the "gentleman's agreement" between the Congress and the Administration on the timing of the announcement.

#### DISADVANTAGES

- \* May negatively impact on rural applicants, who require more time to complete applications.
- \* EZ interest groups have asked for longer application periods, not shorter ones.
- \* Extensive outreach to community groups will be limited. However, since there are not the same kind of flexible funds available, there is no longer reason for extensive discussions with those groups. However, we recommend leaving the option open of working an additional plans with the designees and community groups should the Congress provide HUD and USDA with flexible funds in later years.



● Paul J. Weinstein Jr.

10/22/97 12:06:50 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Gene B. Sperling/OPD/EOP  
cc: Emil E. Parker/OPD/EOP, Jose Cerda III/OPD/EOP, Elena Kagan/OPD/EOP, Jonathan A. Kaplan/OPD/EOP  
Subject: Empowerment Zones Round II

### Background

This Friday, you both will be meeting with Secretary Cuomo to discuss the timetable for announcing the second round of Empowerment Zones (EZ). As you know, there is considerable debate on this matter. Secretary Cuomo would like to postpone announcing the 15 urban designees until late next year, when he believes we could secure flexible grant funding from Congress. The Secretary believes that flexible grants are the key to the EZ program. With the grants, the Administration can require the kind of comprehensive, strategic, and bottom-up planning that was the hallmark of the first round. USDA would also like to delay the announcement until late next year in order to provide rural communities, who have less resources and expertise in applying for federal grants, more time to prepare their applications.

Because the EZ tax incentives are available now, the DPC has recommended that the President make the designations next Spring. We believe that delaying the designations for a year would open the President and Vice President up to criticism by the Mayors and the Republicans for having wasted valuable tax incentives. We are also concerned about the likelihood of obtaining discretionary funds for a program so closely identified with the Vice President shortly before the '98 election. However, Secretary Cuomo is not comfortable with this approach. The Secretary thinks we should consider asking Congress to "turn off" the tax incentives until we make the designations next year.

Because of this impasse, I have been talking with several folks (including Paul Dimond), about a possible compromise option which I believe would address the key concerns of both sides. The proposal would work in two parts:

### Proposal

1. May 30th Notification of Designation as Round II EZs -- Applications would be sent out in December. The applications would notify communities interested in applying that a menu of tax incentives and some small targeted grants are available. The application would be shorter than the one sent out in 1994 (First Round). The application would ask communities to identify private sector commitments and partners up front, how they plan to leverage the tax incentives, how the tax incentives fit into their communities long-term strategic plan, and how they plan to utilize the targeted grants. The applications would be due back to HUD and USDA by the end of March. The two agencies, in consultation with Community Empowerment Board and Treasury, would announce the designees no later than the end of May.

2. December 30th Notification of Round II EZ Grant Competition Awards -- The applications sent out in December would notify communities that the EZ Round II program would be a two-step



process. First, the designations and the tax incentives would be awarded. Second, once funds were secured from Congress, the twenty designees would compete among themselves for a pool of flexible grant funds. Upon designation in May, the twenty communities would be asked to begin putting together a more comprehensive, strategic plan, similar to the type submitted by First Round winners. The plans would include performance goals and measurements. The plans would be submitted in the Fall to HUD and USDA. Assuming we secure funds from Congress, we would announce the amounts awarded to the Second Round EZs by the end of December. One possible twist on this option would be to allow the First Round EZs and Enterprise Communities (EC) to apply for the funds as well.

#### **Advantages**

- Allows communities to take advantage of tax incentives earlier rather than later.
- Makes the Second Round more consistent with the First Round and puts the "Clinton-Gore" stamp on the program.
- Insures that at least twenty communities would go through the same type of beneficial application process that First Round applicants experienced. The flexible grants would allow the Administration to require the twenty winners to develop comprehensive/strategic plans that focus on bottom-up solutions and promote sustainable development.
- When the Administration goes before Congress to secure flexible grants, we potentially have 40 Senators and 20 Representatives solidly committed to obtaining the funds.

#### **Disadvantages**

- Only the twenty designees will develop comprehensive/strategic plans instead of all the applicants. However, all the applicants will develop smaller plans that focus on private sector leveraging and financial commitments.
- Some would argue that if you announce the winners before going to Congress to seek the additional funds for the grant side of the program, that you decrease the chances for success. I would argue it actually increases the odds of obtaining funds because we then have some Congressmen who have a real stake in the program because the cities or rural areas are in their district. I would cite the Los Angeles and Cleveland Supplemental EZs as a successful example of this strategy.

Urban policy -  
empowerment zones



Paul J. Weinstein Jr.

10/09/97 11:49:58 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Gene B. Sperling/OPD/EOP

cc: Elena Kagan/OPD/EOP, Emil E. Parker/OPD/EOP, Jose Cerda III/OPD/EOP, Jonathan A. Kaplan/OPD/EOP

Subject: Empowerment Zones Round II

Secretary Cuomo would like to meet with you both to discuss the timetable for selecting the Round II Zones. As you know, the Secretary is very concerned about designating the Round II Zones without any flexible grant money to complement the tax incentives. The Secretary wants to explore the possibility of asking Congress to delay or "turn off" the ten year clock on the tax incentives (the clock started ticking with the passage of reconciliation) until the actual designations are made. He believes this will give us time to figure out how much grant money the Administration will have available. The Secretary strongly feels that without grant money, this is not a real EZ program. It would not promote bottom-up planning nor allow the Mayors do invest innovatively with the flexible funds. The Secretary would like to have this conversation before the Community Empowerment Board (CEB) submits an options memorandum to the Vice President. I would recommend that you both ask Cathy and Melissa to set up this meeting next week.

Urban policy -  
empowerment zones

## SUMMARY OF EMPOWERMENT ZONES IN BUDGET

The Balanced Budget Agreement, signed into law by the President on August 5, 1997, creates 22 additional Empowerment Zones (EZs). Two of these Zones are to be selected within 180 days of August 5 (February 1, 1998) and 20 additional Zones are to be selected through a longer-term process. Since there are currently nine EZs, the creation of 22 additional EZs brings the new total number of EZs to 31. In general, the two additional Zones would receive a similar package of tax incentives offered to the first-round designees and the 20 additional Zones would receive a different set of tax benefits. The amount of direct grants that would be available is currently pending in the Congressional Appropriations process.

As in the first round, communities will be challenged to develop their own comprehensive plans for revitalization, with the input of residents and a wide array of stakeholders.

### I. The 2 New Empowerment Zones (with "Round I" and other benefits)

By February 1, 1998, the Secretary of HUD will designate two additional urban EZs. These two EZs, beginning in the year 2000, will be eligible in the main for the full tax incentives offered to first-round EZ designees. This includes increased section 179 expensing, tax-exempt bond financing for capital costs and investment, and a wage tax credit (phasing out between the years 2005 and 2007) for up to \$3,000 per employee for the cost of wages and training for employees who are Zone residents. The two EZs would also be able to access two new measures in the budget: 1) the Brownfields tax incentive to allow clean-up costs paid or incurred before the year 2001 to be deducted immediately for tax purposes; and 2) the public-school renovation tax credit, which provides a \$400 million per year credit allocated to states, over the next two years, for the renovation and equipping of qualified public schools (with any unused allocation carried forward to subsequent years).

Communities that were designated in the first round as Supplemental Zones (Cleveland and Los Angeles) and current Enterprise Communities would be eligible to compete for the new designation, as would all other urban communities that met the EZ/EC poverty criteria. HUD will provide details on the selection process shortly.

### II. Additional 20 Empowerment Zones (with "Round II" benefits)

The budget also includes a competition for a "second round" of 20 EZ designations -- 15 urban; 5 rural. These EZs will be eligible for the new Brownfields tax incentive and public school tax credit outlined above, special expensing of business assets, and qualification for private-activity bonds. The EZs can designate up to 2,000 acres of non-poverty area that can be eligible for the Brownfields tax incentive and the special private activity bonds.

Communities eligible for the two additional Zones (but not designated as one of the two Zones), as well as qualified rural communities and Indian Nations, would be eligible for the "second round" of 20 Zones. An interagency process will soon begin meeting to develop plans regarding the application process.

### **III. New Benefits for All EZs and ECs**

All 105 existing EZ and EC communities -- plus the 22 new EZs will be eligible for:

- **Brownfields Tax Incentive.** All existing EZs and ECs and new EZs are eligible for this tax incentive, which will promote the clean-up and redevelopment of contaminated industrial sites.
- **Relaxed Eligibility Rules for Bonds and Expensing.** All existing EZs and ECs and new EZs would benefit from relaxed eligibility rules, allowing a broader range of businesses to qualify for the special tax-exempt private-activity bonds and section 179 expensing (179 expensing applies only to EZs), which will promote commercial investment.
- **Public-School Renovation Tax Credit.** All existing EZs and ECs and new EZs are eligible for the public-school renovation tax credit, which will promote the creation of more rigorous schools and job-skilled youth.
- **Work Opportunity Tax Credit.** All existing EZs and ECs and new EZs are eligible for the extension of this tax credit, which will enable employers (until June 30, 1998) to claim a \$2,100 tax credit for hiring at-risk youth and other hard-to-employ residents.

### **IV. New Benefits for "Round II" EZs**

The 20 additional EZs, in addition to the above benefits, will be eligible for:

- **Special Brownfields Tax Incentive.** All new EZs are eligible for the enhanced Brownfields tax incentive, allowing designation of up to 2,000 acres of non-poverty, industrial acreage, which will be the focus of job creation for Zone residents.

- **Enhanced Private-Activity Bonds.** All new EZs are eligible for \$60-230 million in flexible private-activity bond authority, outside the state volume cap, to subsidize job-creation and business expansion in the Zone (including up to 2,000 acres of non-poverty acreage noted above).
- **Additional Section 179 Expensing.** All new EZs are eligible for \$20,000 in additional section 179 expensing of investments in capital and equipment (with liberalized eligibility rules noted above) in order to promote commercial investment.

#### **V. FY 98 Funding for the 22 EZs**

The President's FY 1998 budget plan included approximately \$1 billion for direct grants for new EZ designees over three years -- with \$485 million targeted to 1998. FY 1998 Appropriations bills for the Departments of Labor, Agriculture, and Housing and Urban Development are currently moving forward, and will likely reach Conference Committee in September. As it stands, given the current status of these bills, the range of funding available spans from \$61 million (assuming absolute worst-possible case with Labor funding in view of the authorization provision noted below) to \$382 million, with much more likelihood on the upside.

Following is a specific breakdown of Agency requests:

**Dept. of Labor.** DOL requested \$250 million in FY 98 funding. The DOL Senate Appropriations bill provides for the full \$250 million (specifically for "Opportunity Areas for Out-of-School Youth"), with this funding not available until October 1, 1998. The DOL House Appropriations bill provides for a \$100 million in such funding, with such funding not available until July 1, 1999. Note that both bills currently include provisions that this funding cannot become available without authorizing legislation (this is clearly an intolerable provision that must be knocked out).

**Dept. of Agriculture.** Agriculture requested \$135 million in FY 98 funding. The Agriculture Senate Appropriations bill includes \$61 million and the corresponding House Appropriations bill includes \$82 million.

**Dept. of Housing and Urban Development.** HUD requested \$100 million in FY 98 funding. The HUD Senate Appropriations bill includes \$25 million and the corresponding House bill includes no funding.

Urban policy -  
empowerment zones



Paul J. Weinstein Jr.

08/01/97 12:57:22 PM

Record Type: Record

To: Gene B. Sperling/OPD/EOP, Bruce N. Reed/OPD/EOP, Ron Klain Pager  
cc: See the distribution list at the bottom of this message  
Subject: Empowerment Zone Round II

Now that we have Round II, I believe it is important to outline some of the issues that we need to address to make the selection process happen.

1. What We Know -- 15 urban and 5 rural EZs. HUD chooses the urban zones, USDA the rural ones. The new EZs will benefit from a different blend of tax credits from first-round EZs. They will be eligible for the Brownfields tax incentive, special expensing of business assets, and qualification for private-activity bonds. No new ECs. In addition, two cities are eligible for the first round benefits. HUD must choose these in the next 180 days. This was the money that was targeted for LA and Cleveland. But my understanding is that HUD is interpreting the legislation to require a competition. Johnathan Weiss, in close coordination with HUD and USDA, has offered to do a one-pager on what is actually in the bill as soon as he gets the final language. This should be ready by next Wednesday.

2. Application Design Working Group -- In 1993, the NEC, DPC, and OVP established an interagency working group of HUD, USDA, HHS, and Treasury to design a "different" type of application. This process almost took six months. The issuing of the applications was a Presidential event (on Martin Luther King's birthday in 1994). I do not believe the application should take six months to design this time. The format should basically be the same. But we should reconvene the design group. Julian Potter, who is coming over to the CEB from HUD, was an integral player in the design of the EZ/EC Application. We might want to ask her to take the lead.

3. Timeline For Designation -- Assuming the applications will be ready to be sent out by late Fall (December), HUD and USDA should be ready to receive back submissions by the end of May/early June. We then should allow for a three month review process. The President and the Vice President could then designate the EZs in September '98. One issue that needs to be thought through is whether or not we recreate the interagency review team that existed in '94 and operated across the street from HUD. Since we have no discretionary spending, we might want to limit the number of agencies involved in the selection process. In addition, to insulate the President and the Vice President from any complaints on the selection process, I recommend we follow the same procedures from the first round regarding contacts between HUD, USDA and the White House concerning specific applications. (Specifically no contacts.) This worked very well for us the last time.

4. Current EC expectations -- Many of the ECs designated in the last round are going to expect some kind of special consideration for selection as an EZ in this round. Especially the four Enhanced ECs (Boston, Oakland, Kansas City, Houston). Although this depends partially on the new legislation, we need to make it clear early on what, if any, preferences we give the existing ECs and rural Champion communities.