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LC – Enterprise Zones

NCSL • LEGISBRIEF

March 1994 Vol. 2, No. 9

FEDERAL EMPOWERMENT ZONES

By Neal Osten

Since 1980, 37 states and D.C. have created 800 zones.

Two congressmen from New York, Jack Kemp and Robert Garcia, introduced legislation in 1980 to establish federal enterprise zones to combat poverty in the nation's inner cities and poor rural areas. In the 13 years that Congress has since debated the issue, 37 states and the District of Columbia have created more than 800 zones. By the end of 1992, the U.S. Senate Subcommittee on Competitiveness, Capital Formation and Economic Opportunity estimated that state-created zones saved or generated 250,000 jobs and were the beneficiaries of almost $28 billion in capital investments.

Congress agreed to join the states' efforts in 1993 by passing the Clinton administration's Empowerment Zone/Enterprise Community proposal. The proposal, included in the Omnibus Budget Reconciliation Act of 1993 (OBRA 93), creates nine empowerment zones (six urban, three rural) and 95 enterprise communities (65 urban and 30 rural). The secretary of Housing and Urban Development (HUD) will designate the urban zones and communities; the secretary of Agriculture (USDA) will do the same in rural areas.

A federal board will investigate what may be impeding state and local governments.

To expedite formation of empowerment zones and enterprise communities, President Clinton created the Community Enterprise Board, a cabinet-level advisory panel. The board, chaired by Vice President Al Gore, will assist in the development of selection criteria for the designation of zones and communities. The president also requested that the members review how federal departments and agencies might be able to assist in providing relief to distressed communities, including what legislative mandates may be impeding state and local governments from meeting their plans for zones and communities. NCSL has participated in three meetings with representatives of the administration on the development of the selection criteria.

Congress provided $2.5 billion in tax incentives to employers in the zones as well as $1 billion in grants to the zones and communities. The grants are through the Title XX Social Service Block Grant program and must be used for programs that encourage economic self-sufficiency, prevent child neglect, preserve families or further the strategic plan for the zone or community.

Areas seeking to be designated as empowerment zones or enterprise communities must meet all of the following:

❖ **Population**--Maximum population of urban areas must be between 200,000 and 50,000 or 10 percent of the population of the largest city within the area. Maximum population of rural areas is 30,000.

❖ **Distress**--Indicated by high rates of crime, drug trafficking, unemployment, vacancies, designation as a disaster area, or economic distress due to a military base closure or restrictions on timber harvesting.

❖ **Area**--An area must either have a continuous boundary, or, except in the case of a rural area located in more than one state, consist of not more than three noncontiguous parcels. Urban areas must be located in not more than two contiguous states. Rural areas must be located in not more than three contiguous states.

❖ **Size**--Urban areas must not exceed 20 square miles. Rural areas must not exceed 1,000 square miles.

❖ **Poverty**--Each of the census tracts (based on the 1990 census or subsequent census data) within a nominated area must have a poverty rate of at least 20 percent; at least 90 percent of the tracts must have a poverty rate of at least 25 percent; and at least 50 percent of the tracts must each have a poverty rate of at least 35 percent.

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To be considered for designation as an empowerment zone or an enterprise community, a nominated area must submit a strategic plan by the local government and state in which the area is located. The plan must identify: (1) how activities will be coordinated between the state, local government and private organizations and describe what resources they will commit to the area; (2) how federal funds, particularly from the Title XX Social Service Block Grant, will be used in the area; (3) baselines and methods for measuring progress; and (4) a guarantee that the applicants will not assist any relocation of business from outside a zone or community to within the nominated area. The strategic plan must also contain written assurances from the nominating state and local government that if selected, the plan will be implemented.

Applications must contain written assurances that the plan will be implemented.

The new Employer Wage Credit will be available only in empowerment zones. The wage credit for zone employers against income tax liability is 20 percent for the first $15,000 of qualified wages to a maximum of $3,000 per year per employee who lives and works in the zone. The credit will be phased out beginning in 2002, and no credit will be available after Dec. 31, 2004.

Under the Title XX Social Service Block Grant, for an urban empowerment zone, a state will receive a total of $100 million; for a rural empowerment zone, a state will receive a total of $40 million; and for each enterprise community, a state will receive a one-time grant of approximately $2.9 million. A state must obligate the funds within two years of the date it has received the grant. If it fails to do so, any funds not obligated must be remitted to the federal government.

Funds must be used to encourge economic self-sufficiency, prevent child neglect or preserve families.

While the administration is planning on making at least half (if not all) the designations in 1994, state and local governments will need to take sufficient time to develop strategic plans as well as coordinate with all parties involved as to what commitments they are willing to make during the 10-year life span of the designation.

While the legislation lists preliminary eligibility criteria, the secretaries of HUD and USDA in coordination with the Community Enterprise Board will provide additional guidelines for state and local governments. It is unlikely that the secretaries will establish a very detailed list of criteria because it has always been the administration's desire that applicants for designation be "innovative" in their plans. The "innovation" that the secretaries will most likely be looking to will involve how the state, the local government and the private sector will be partners in the zone or community and to what extent the state as well as the local government will dedicate resources, particularly financial, to the area for the 10-year designation period.

Innovation is a high priority.

Selected References

"Hearing on Enterprise Zones." Washington, D.C.: Senate Subcommittee on Competitiveness, Capital Formation, and Economic Opportunity, June 18, 1993, 103rd Congress, 1st Session.

"The Omnibus Reconciliation Act of 1993." Washington, D.C.: H-Rept 103-213, 103rd Congress, 1st Session.

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