

GAO

Report to the Chairman, Subcommittee
on Human Resources and
Intergovernmental Relations, Committee
on Government Reform and Oversight,
House of Representatives

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COMMUNITY DEVELOPMENT

Status of Urban Empowerment Zones





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The Honorable Christopher Shays
Chairman
Subcommittee on Human Resources
and Intergovernmental Relations
Committee on Government Reform
and Oversight
House of Representatives

Dear Mr. Chairman:

For over 30 years, the nation has faced the challenge of revitalizing its deteriorating urban and rural communities. In the past, the federal government has tried to revive distressed areas by providing grants for activities ranging from job training and social services to the repair and replacement of aging infrastructure. The most recent effort to help distressed communities is called the Empowerment Zone and Enterprise Community (EZ/EC) program. This 10-year program targets federal grants to distressed urban and rural communities for social services and community redevelopment and provides tax and regulatory relief to attract or retain businesses in distressed communities. In general, the same eligibility criteria and selection process apply to the EZs and the ECSs. However, the EZs receive much larger grants than the ECSs, and businesses located in the EZs are eligible for more tax incentives than businesses in the ECSs.

The enacting legislation designated 104 communities as either EZs or ECSs. Federal funding for the EZs and ECSs was made available through the title XX Social Services Block Grant (SSBG) program, which is administered by the Department of Health and Human Services (HHS). This report focuses on the six urban EZs, which receive the majority of the EZ/EC SSBG funds, as well as some tax incentives that are not available to the ECSs.¹ The urban EZs are located in Atlanta, Baltimore, Chicago, Detroit, New York, and Philadelphia-Camden (a bistate zone).

In response to your request, this report (1) describes the status of the program's implementation in the urban EZs, including the extent to which public housing officials and residents have been involved; (2) identifies factors that participants believe have either helped or hindered efforts to

¹During the next year, we plan to report to the Senate Committee on Agriculture, Nutrition, and Forestry on the Department of Agriculture's implementation of the EZ/EC program in rural areas.

carry out the program; and (3) examines the plans for evaluating the program.

Results in Brief

The six urban EZs resemble each other in some ways but also differ in ways that reflect the diversity of their communities. For example, all of the EZs have prepared strategic plans, signed agreements with the Department of Housing and Urban Development (HUD) and the states, drafted performance benchmarks, and set up their governance structures. Also, as of October 31, 1996, each EZ had used part of the \$100 million grant available to it for the 10-year program. However, the EZs differ in their physical and demographic characteristics, such as their geographic size and number of residents; in the types of organizations involved in carrying out the program; in the activities planned; and in the amounts of federal funds used. In addition, all of the EZs have included public housing authority officials in planning and implementing the program. Although public housing officials in three EZs indicated that their EZ could have involved the public housing authority or public housing residents to a greater extent, most of the officials were optimistic about their future involvement in the program.

Many officials involved in implementing the program generally agreed on factors that have either helped or hindered their efforts. In a survey we conducted of program participants at the federal, state, and local levels, over half of the 27 program officials who responded agreed that community representation on the EZ governance boards, technical assistance provided by HUD's contractors, enhanced communication among stakeholders, and support from the city's mayor and from White House and cabinet-level officials had helped the program's implementation. Conversely, the difficulty in selecting a governance structure, the additional layer of bureaucracy created by the state government's involvement, preexisting relationships among EZ stakeholders, pressure for quick results, and the lack of federal funding for the program's initial administrative activities were frequently identified as factors constraining implementation.

From the beginning, the Congress and HUD made evaluation plans an integral part of the EZ program through legislation and guidelines. HUD required each EZ to prepare a strategic plan indicating how it would satisfy the EZ program's four key principles—creating economic opportunity, creating sustainable community development, building broad participation among community-based partners, and describing a strategic vision for

change in the community. HUD also required the strategic plan to include realistic performance benchmarks for measuring progress in implementing the program. All six of the urban EZs prepared strategic plans that include benchmarks describing the activities that the EZ planned to accomplish during the first 2 years of the program. These efforts constitute the initial steps toward establishing results-oriented measures for the EZ program. However, HUD and the EZs have not yet (1) described measurable outcomes for the program's key principles or (2) indicated how the outputs anticipated from one or more benchmarks will help to achieve those outcomes.

Background

On August 10, 1993, the Congress enacted the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993, P.L. 103-66), which established the EZ/EC program's eligibility criteria, designation procedures, and benefits. The act specified that an area could not be selected for the program unless it (1) met specific criteria for characteristics such as geographic size and poverty rate and (2) prepared a strategic plan for implementing the program. The act also authorized the Secretary of Housing and Urban Development and the Secretary of Agriculture to designate the EZs and ECs in urban and rural areas, respectively; limited the number of designations that could be made; set the length of the designation at 10 years;² required that nominations be made jointly by the local and state governments; and authorized the Secretaries to prescribe any regulations needed to carry out the program.

The act also amended title XX of the Social Security Act to authorize the special use of SSBG funds³ for the EZ program. The use of SSBG funds was expanded to cover a range of economic and social development activities. Like other SSBG funds, the funds allotted for the EZ program are granted by HHS to the state, which is fiscally responsible for the funds. HHS' regulations covering block grants (45 C.F.R. part 96) provide maximum fiscal and administrative discretion to the states and place full reliance on state law and procedures. HHS encouraged the states to carry out their EZ funding responsibilities with as few restrictions as possible under the law. After the state grants the funds to the EZ or the city, the EZ can draw down the

²The act allows the state or local government to provide for a shorter term in the nomination, which none did, and allows HUD to revoke a designation before the end of the 10-year term if the EZ changes its boundaries or does not make significant progress in achieving the benchmarks in its plan.

³SSBG typically funds state governments for social service activities. The amount of each state's grant from HHS is based on an allotment formula specified in title XX of the Social Security Act.

funds through the state for specific projects over the 10-year life of the program.

In January 1994, the Clinton administration announced the nominating procedure and required that nominations be received by June 30, 1994. After collaborating with other federal agencies including HHS, HUD and the U.S. Department of Agriculture (USDA) jointly issued an application guide⁴ requiring each applicant to submit its nomination along with a strategic plan that had been developed with input from community stakeholders, such as residents, businesses, financial institutions, service providers, and state and local governments. The plan was to describe the community's overall vision for revitalization, link this vision to the program's four key principles, identify other governmental and private resources that would be committed to this program, and describe potential barriers to the successful implementation of the plan. HUD also published guidelines for developing strategic plans,⁵ conducted technical assistance workshops around the country, provided advice and technical assistance through federal employees, and contracted for technical assistance in fields such as planning and community development.

The federal government received over 500 nominations, including 290 from urban communities. The nominations were reviewed by the EZ/EC task force, which consisted of federal employees detailed from many federal agencies. This task force reported on the urban applications to a review panel that consisted of three senior officials from HUD's Office of Community Planning and Development. This panel recommended potential urban designees to the Secretary of Housing and Urban Development. The Secretary then sent his preliminary selections to the Community Empowerment Board for review.⁶ This board is chaired by the Vice President and its members include the heads of cabinet-level and other federal agencies. The board was established to offer a single point of federal coordination for communities and to facilitate one-stop access to federal resources. On December 21, 1994, the Secretaries of Housing and Agriculture designated 104 EZs and ECS—6 urban EZs, 3 rural EZs, 65 urban

⁴Empowerment Zones and Enterprise Communities Application Guide (HUD-1445-CPD), HUD, Office of Community Planning and Development, and USDA, Office of Small Community and Rural Development (Jan. 1994).

⁵A Guidebook for Community-Based Strategic Planning for Empowerment Zones and Enterprise Communities (HUD-1443-CPD), HUD, Office of Community Planning and Development (Jan. 1994).

⁶On August 31, 1995, HUD's Office of Inspector General issued an audit report entitled Review of Empowerment Zone, Enterprise Community, and Economic Development Initiative Grant Selection Processes (95-HQ-154-0002), which describes the selection process in more detail.

ECS, and 30 rural ECS.⁷ On the same day, HHS awarded the first half of the SSBG to the EZs and ECS, as provided for in the authorizing legislation.⁸ Subsequently, HHS provided information to the designees to clarify the uses of and controls on the EZ/EC SSBG funds and advised the EZs and ECS about other HHS grants that have been awarded or are available to the EZs.

All of the designated communities will receive federal assistance; however, as established by OBRA 1993 and HUD's implementing regulation (24 C.F.R. part 597), the EZs are eligible for more assistance than the ECS. Each urban EZ was allocated \$100 million, and each rural EZ was allocated \$40 million, in EZ/EC SSBG funds for use over the 10-year life of the program. In addition, up to \$20 million in state and local bonds—whose proceeds were to be used to provide facilities and land for businesses in the zone—would be tax-exempt. Furthermore, businesses located in the EZ would be eligible for (1) tax credits on wages paid to employees who live in the EZ and (2) increased deductions for depreciation. Each urban and rural EC was allocated just under \$3 million and qualified only for the tax-exempt bonds. The federal government also made a commitment to all of the EZs and ECS to (1) give them special consideration in competitions for funds from other federal programs, (2) work cooperatively with them in overcoming regulatory impediments, and (3) allow them to make more flexible use of existing federal funds.

After making the designations, HUD issued implementation guidelines⁹ describing the program as one in which (1) solutions to community problems are to originate from the neighborhood up rather than from Washington down and (2) progress is to be based on performance benchmarks established by the EZs, not on the amount of federal money spent. The benchmarks are to measure the results of the activities described in each EZ's strategic plan. These benchmarks became part of the agreement that was signed by HUD and state and local government officials for each zone. The EZ/EC task force's members were available to assist the EZs in preparing their benchmarks. HUD also uses contractors,

⁷On the same day, HUD's Secretary designated six communities, five of which were also ECS, as Supplemental Empowerment Zones and Enhanced Enterprise Communities. Unlike the other EZs and ECS, these communities each received funds through HUD's Economic Development Initiative (EDI) grant. The supplemental zones, located in Los Angeles and Cleveland, received EDI grants of \$125 million and \$87 million, respectively. The enhanced communities, located in Oakland, Boston, Kansas City, and Houston, received \$22 million each. Except for Los Angeles, all of these communities received an additional \$3 million in EZ/EC SSBG funds as ECS.

⁸The remaining half of the SSBG was granted on October 1, 1995.

⁹Empowerment Zones Enterprise Communities Implementation Guide, HUD, Office of Community Planning and Development (May 1995).

which HUD refers to as generalists, to provide day-to-day assistance to the EZs.

Status of the Program's Implementation

All six of the urban EZs have met the criteria defined in OBRA 1993,¹⁰ developed a strategic plan, signed an agreement with HUD and the state for implementing the program, signed an agreement with the state for obtaining the EZ/EC SSBG funds, drafted performance benchmarks, and set up a governance structure. In addition, all of the EZs have included public housing officials and public housing residents in planning and implementing the program. However, the EZs differ in their demographic characteristics, organizational structure, and plans for using their EZ/EC SSBG funds. Also, a few public housing officials indicated that their EZ had not done enough to involve the public housing authority or public housing residents.

Differences Among the EZs

The EZs differ in their geographic and demographic characteristics, reflecting the selection criteria. For example, Detroit's EZ covers about 18 square miles and is over four times as large as the Philadelphia-Camden EZ. In Baltimore, Chicago, and Philadelphia-Camden, the areas included in the EZ are not contiguous, while in Atlanta, Detroit, and New York,¹¹ they are contiguous. Furthermore, the Philadelphia-Camden EZ is unique because it is located in two cities and states. The population of the EZs ranges from about 50,000 in Atlanta and Philadelphia-Camden to nearly 200,000 in Chicago and New York.

The poverty and unemployment rates¹² also vary across the EZs. The overall poverty rate for the Atlanta EZ was the highest, encompassing 55 percent of the residents, while the New York and Baltimore EZs

¹⁰The act required that the nominated area have a maximum population of the lesser of (1) 200,000 or (2) the greater of 50,000 or 10 percent of the city's population. In addition, the act required that the area have "pervasive poverty, unemployment, and general distress," not exceed 20 square miles, have a continuous boundary or consist of three or fewer noncontiguous parts, be located in no more than two contiguous states, and exclude the central business district. Finally, the area had to meet a three-tier criterion for poverty rates: (1) 100 percent of the census tracts in the nominated area had to have a minimum poverty rate of 20 percent, (2) 90 percent of the tracts had to have a minimum poverty rate of 25 percent, and (3) 50 percent of the tracts had to have a minimum poverty rate of 35 percent.

¹¹While New York submitted its nominated area as a contiguous zone, the zone includes parts of Bronx and New York counties, which are separated by the Harlem River.

¹²For the 1990 Census, which was the only acceptable source of data for EZ applicants, the poverty rate was the percentage of people whose poverty status was computed and whose 1989 income was below a specific threshold. For example, the threshold for a family of four was \$12,674. The unemployment rate is the percentage of civilians who were not working, were over 16 years old, were looking for a job, and were available to accept a job.

reported an overall poverty rate of about 40 percent. The poverty rates for all of the EZs are high compared with the national poverty rate of about 14 percent. Similarly, the unemployment rates in the EZs ranged from 15 percent in Baltimore to 29 percent in Detroit, while the national rate was about 6 percent. (See table 1 for details on each EZ.)

Table 1: Characteristics of Urban Empowerment Zones

	Atlanta	Baltimore	Chicago	Detroit	New York	Philadelphia-Camden
City's population	395,247	736,014	2,783,726	1,027,974	7,322,564	1,673,069
EZ's population	49,998	72,362	199,938	101,279	199,375	49,645
EZ's poverty rate (percent)	55	41	49	47	42	50 ^c
EZ's unemployment rate (percent)	17	15	25	29	18	22 ^c
Percent of EZ's residents in public housing ^a	50	18	15	6	42	10
Area of the EZ (square miles)	9.3	6.8	14.3	18.4	6.5	4.4
Funds drawn down ^b	\$1,535,605	\$2,095,500	\$279,000	\$54,327	\$511,202	\$570,943

Note: Unless otherwise noted, these data are from the EZs' plans.

^aThese data are based on information provided by public housing authority officials in the EZ cities.

^bThese data were reported by HHS and the EZs as of October 31, 1996.

^cWe calculated these rates using 1990 Census data.

Local governments have chosen different approaches to implementing the EZ program. Atlanta, Baltimore, Detroit, New York, and Camden have each established a nonprofit corporation to administer the program, while Chicago and Philadelphia are operating through the city government.

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

SSBG program. Some states, as the entities with fiscal responsibility for the EZ/EC SSBG funds, identified additional requirements that the EZ must meet before it can draw down funds. For example, one state requires the EZ to follow the guidelines established in the Office of Management and Budget's Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.¹³ The federal government does not require the recipients of SSBG funds to follow these guidelines.

Finally, each EZ has planned diverse activities to meet its city's unique needs. All of the EZs have planned activities to increase the number of jobs in the EZ, improve the EZ's infrastructure, and provide better support to families. However, the specific activities vary, reflecting decisions made within each EZ. According to HUD, the EZs have obligated over \$170 million. However, the definition of obligations differs across the EZs. For example, one EZ defines obligations as the amount of money awarded under contracts. Another EZ defines obligations as the total value of the projects that have been approved by the city council, only a small part of which has been awarded under contracts. As of October 31, 1996, the six EZs had drawn down about \$5 million from the EZ/EC SSBG funds for administrative costs, as well as for specific activities in the EZs. Administrative costs covered salaries, office equipment, supplies, audits, and consultants' fees. Individual EZs had also provided funds for activities such as initiating a project to reduce alcohol- and drug-related violence among high-risk youth, acquiring sites for a supermarket and retail stores, and creating an industrial ecological park. The EZs have used very little of the federal funding available to them because they have been involved in other activities, such as setting up their governance structures, establishing procedures for obtaining funds, and encouraging businesses to invest in them. (See app. I for details on each EZ's governance structure, use of EZ/EC SSBG funds, and planned activities.)

Involvement of Public Housing Officials and Residents

The EZ program requires the participation of various segments of the community, including the residents. Although the program does not explicitly require the involvement of public housing authority (PHA) officials or public housing residents, all of the EZs contain public housing units.¹⁴ We interviewed PHA officials in the six urban EZs to obtain information on the number of public housing residents in each EZ and the

¹³This circular establishes principles and standards for determining the costs for federal awards that are carried out through grants and other agreements with state and local governments. It includes guidelines on which costs are allowable under federal grants.

¹⁴According to the Camden Public Housing Authority, there are no public housing units in the Camden part of the Philadelphia-Camden EZ.

participation of PHAs and public housing residents in their EZ's activities. According to the information we obtained, about 50 percent of the residents in the Atlanta EZ live in public housing, followed by 42 percent in New York, 18 percent in Baltimore, 15 percent in Chicago, 10 percent in Philadelphia-Camden, and 6 percent in Detroit.

PHA officials in all six EZs said that they and the residents they serve participated in their EZ's activities. Initially, PHAs and residents helped to develop the EZ's applications and benchmarks, organized community meetings, and served on housing committees and local task forces. More recently, PHA officials and residents have served on governance boards and housing councils and have been active in human service and job training programs.

Officials from three of the EZs, including one with a large number of public housing residents, told us that their EZ had not done enough to include either the PHA or the public housing residents in the EZ's activities after designation. These officials suggested that greater involvement is needed because a large proportion of their city's public housing is in or near the EZ. The officials also reported that their involvement in the EZ program could maximize their city's use of the federal resources allocated to public housing and the EZ's activities. For example, one official saw an opportunity to coordinate HUD's Hope VI program with the EZ's activities.¹⁵

Overall, PHA officials are optimistic about their involvement in the EZ program and believe that it will continue or increase. In addition to serving on various boards and councils, the PHAs expect to expand their role in home ownership and housing rehabilitation initiatives and in job creation and training programs.¹⁶

Factors That Helped or Hindered the Program's Implementation

We interviewed participants in the EZ program across all six EZs—including EZ directors and governance board members, state officials involved in drawing down the EZ/EC SSBG funds, contractors who provide day-to-day assistance to the EZs, and HUD and HHS employees—and asked them to identify what had and had not gone well in planning and implementing the program. To obtain reactions to all of the factors that

¹⁵HUD's Hope VI program was created to revitalize severely distressed or obsolete public housing developments.

¹⁶In commenting on this report, HUD officials identified two programs that they felt exemplified HUD's support for coordination between EZ and public housing officials. One was the Early Childhood Initiative, which provided \$21 million for child care services to support public housing residents in EZs. The other was the Hope VI 1996 competition, through which all six urban EZs received funds.

these individuals identified, we listed the factors in a questionnaire and mailed it to 32 program participants, including those we had already interviewed. The questionnaire asked the survey recipients to indicate the extent to which each factor had helped or hindered the program's implementation. The survey also provided space for the respondents to give examples or suggest solutions. While the survey respondents' views cannot be generalized to the entire EZ/EC program, they may be useful to HUD as a starting point for communicating with the EZs to improve the current program. These views also can form a basis for framing future initiatives with goals similar to those of the EZ program. (App. II lists all of the factors identified in the telephone interviews and in the survey. App. III contains a more detailed discussion of our methodology.)

In the 27 surveys that were returned to us, five factors were frequently identified as having helped, and six factors were frequently identified as having constrained, the program's implementation.¹⁷

Factors That Helped the Program's Implementation

Five factors were identified by more than half of the survey respondents as having helped them plan and implement the EZ program: community representation on the EZ governance boards, assistance from HUD's contractors (called generalists),¹⁸ enhanced communication among stakeholders, support from the city's mayor, and support from White House and cabinet-level officials.

- Having community representatives on the governance boards created a shared responsibility for the program's success and helped to break down barriers between the residents and other segments of the community that were represented on the board, such as the local government and businesses.
- The generalists hired by HUD to work on a daily basis with the zones have been accessible and have provided important assistance to the zones. Respondents said that the generalists' assistance included providing information, negotiating with elected and public officials, forging relationships with the private sector, and arranging meetings. One

¹⁷These factors are discussed in the order of their appearance in our survey. We did not independently analyze the factors identified by the respondents or examine their applicability across all of the EZs. (See app. II.)

¹⁸Generalists are private-sector community development specialists who act as liaisons to specific communities within a geographical area. They provide the EZs and ECs with a single point of access to various types of technical assistance, provide information about federal programs and private-sector initiatives, and foster community involvement in implementing strategic plans.

respondent said that the generalists are seen as people who can cut through bureaucratic red tape and get things done in the community.

- The EZ program has brought community stakeholders together. People from the neighborhoods, the private sector, and the city and state governments who did not previously interact are now discussing community revitalization. These stakeholders have created partnerships that respondents believe have improved relationships between government officials and community leaders; stimulated revitalization throughout the city, not just within the EZ; increased coordination across economic and human development activities, as well as among the public, private, and nonprofit sectors, thereby expanding the availability of funds; and created a basis for ensuring sustainable results.
- Strong mayoral support, shown by activities such as reviewing proposed benchmarks and providing needed resources, produced benefits that included obtaining a high level of involvement from the private sector, resolving issues of distrust, effectively conveying the city's concerns to federal officials, helping attract economic development to the EZ, and increasing the coordination with city departments whose assistance was critical to the program's success.
- The participation of White House and cabinet-level officials enhanced the program's credibility at the community level. For example, one city official said that the involvement of White House officials gave the community hope that their issues would be heard and that federal regulations would be eliminated.

Factors That Constrained the Program's Implementation

Six factors were frequently identified by survey respondents as having constrained their efforts to plan and implement the EZ program: difficulty in selecting an appropriate governance board structure, the additional layer of bureaucracy created by the state government's involvement, preexisting relationships among EZ stakeholders, pressure for quick results from the media, the lack of federal funding for initial administrative activities, and pressure for quick results from the public and private sectors.

- Several respondents noted that selecting the governance structure and deciding on the size and composition of the executive board was time-consuming, taking in at least one case more than a year to resolve. Respondents suggested that HUD could have (1) provided examples of governance structures in its application guidelines and (2) set a time limit for the EZs to adopt a governance structure.

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- The state government's involvement has created an unnecessary layer of bureaucracy, according to some respondents. One respondent said that the state government is requiring the EZ to obtain the state's approval for funding requests. In the respondent's view, this requirement exceeds the state's responsibility to provide fiscal oversight. Some federal and city government respondents said that the approvals at the state level add an unnecessary layer of bureaucracy. At least one state respondent agreed but said the states have no alternative because the SSBG program's regulations, which were not revised for the EZ program, require the states to oversee the use of EZ/EC SSBG funds. He added that even without the fiscal oversight role, state agency officials should be involved in activities such as reviewing the EZ's plans or ensuring consistency with other programs. Suggestions for preventing cumbersome state reviews included (1) clarifying early in the program that the state's role is minimal, (2) eliminating the state's fiscal responsibility for the EZ/EC SSBG funds allocated to the EZ program, and (3) financing the program with funds that, unlike SSBG funds, do not have to flow through the state.
 - In some communities, a history of antagonism and ineffective communication among state and local government representatives, community leaders, residents, and private-sector representatives has impeded consensus-building and teamwork. One respondent suggested that increased team-building efforts—such as off-site team-building training for governance board members—and more effective communication programs could help.
 - Pressure for quick results from the media has created unrealistic expectations about how quickly progress can be achieved. Respondents wrote that some media representatives may not understand the program and that media attention stemmed from the way the federal government initially described the program. Suggested remedies included having (1) local public information officers clarify the program's goals for the media and (2) the federal government stress that this is a 10-year program.
 - Immediately after designation, some EZs did not have the financial and/or human resources that they needed to perform the program's initial administrative activities. The federal government initially told the EZs that they could not access the EZ/EC SSBG funds until agreements were signed by the federal, state, and city governments. The earliest of these was signed in July 1995. In some cases, city and state governments provided funding and assigned staff to the EZ; however, one respondent noted that having work performed by government employees created doubts about who controlled the program—the government or the community. Respondents' suggestions for reducing confusion included (1) making an EZ's designation contingent on a commitment by the city and/or state

government to provide funds for hiring administrative staff or (2) providing a portion of the EZ/EC SSBG funds to the EZ for administration immediately after designation.

- Pressure for quick results from officials at the federal, state, and/or local levels, as well as from the public, was also identified as an impediment. One respondent suggested that before money could be spent on revitalizing the community, the EZs had to develop team-building and decision-making processes. These processes were not in place when the program began, took time to develop, and were necessary to ensure sustainable results. Some respondents noted that, in some instances, rushing the planning and implementation steps resulted in mistakes that took time to correct. Furthermore, the community-based approach used in this program involves a larger group of people than does more traditional decision-making; thus, reaching decisions takes more time. Respondents suggested that the federal government should (1) measure short-term success by the development of capacity in the zones, such as the establishment of participatory processes, not by the amount of money spent and (2) emphasize and encourage the replication of best practices and the transfer of technology among the zones.

Plans for Evaluating the Program

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

Furthermore, HUD's implementation guidelines required each EZ to measure the results of its plan by defining benchmarks for each activity in the plan. HUD intended to track performance by (1) requiring the EZs to report periodically to HUD on their progress in accomplishing the benchmarks established in their strategic plans and (2) commissioning third-party evaluations of the program. HUD stated that information from the progress reports that the EZs prepare would provide the raw material

for annual status reports to HUD and long-term evaluation reports.¹⁹ HUD is reviewing information on the progress made in each EZ and EC to decide whether to continue each community's designation as an EZ or an EC.

All six of the urban EZs prepared strategic plans that include a section on evaluation. They also prepared benchmarks that comply with HUD's guidelines and describe activities that they have planned to implement the program. In most cases, the benchmarks indicate how much work, often referred to as an output, will be accomplished relative to a baseline. For example, a benchmark for one EZ is establishing a single point of access to substance abuse treatment for 1,800 EZ residents. The baseline associated with this benchmark is that 5,400 EZ residents lack access to substance abuse treatment. A benchmark for another EZ states that the EZ will assist businesses and entrepreneurs in gaining access to capital resources and technical assistance through the establishment of a single facility called a one-stop capital shop. The associated baseline is that there is currently no one-stop capital shop to promote business activity. The performance measures for this benchmark include the amount of money provided in commercial lending, the number of loans made, the number of consultations provided, and the number of people trained.

As we have previously reported,²⁰ the Congress, the executive branch, and the public are beginning to hold agencies accountable for the outcomes of their programs—the results as measured by the differences that the programs make, for example, in participants' lives. Specifically, the Government Performance and Results Act requires federal agencies to clearly define their missions and to establish long-term strategic goals, as well as annual goals linked to the strategic ones. Our previous report found that results-oriented organizations follow three steps: (1) define the mission and desired outcomes, (2) measure performance to reinforce the relationship of daily activities to the long-term mission and outcomes, and (3) use information on performance as a basis for decision-making.

In the EZ program, HUD has followed this format to some extent by (1) defining the four key principles, which serve as missions and goals for the EZs; (2) requiring baselines and performance measures for benchmarks

¹⁹HUD's Office of Community Planning and Development awarded a contract for the first annual status reports on each EZ and the Office of Policy Development and Research awarded a separate contract for long-term evaluations of the overall program. The first annual status report is due to be published by the end of 1996. Two long-term evaluation reports are scheduled for completion on the program's 5- and 10-year anniversaries in 1999 and 2004.

²⁰Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996).

in each EZ to help measure the EZ's progress in achieving specific benchmarks; and (3) developing procedures for including performance measures in HUD's decision-making process. However, the measures being used generally describe the amount of work that will be produced (outputs) rather than the results that are anticipated (outcomes). For example, for the second benchmark cited above (establishing a one-stop capital shop), the EZ has not indicated how the outputs (the amount of money provided in commercial lending, the number of loans made, the number of consultations provided, and the number of people trained) will help to achieve the desired outcome (creating economic opportunity, the relevant key principle). To link the outputs to the outcome, the EZ could measure the extent to which accomplishing the benchmark increases the number of businesses located in the zone. Without identifying and measuring desired outcomes, HUD and the EZs may have difficulty determining how much progress the EZs are making toward accomplishing the program's overall mission.

HUD officials involved in the EZ/EC program told us that HUD has been working with the EZs to ensure that they can measure their accomplishment of the individual benchmarks. The benchmarks are revised, as needed, to reflect changes in the community and to include activities that will be performed after the first 2 years of the program. HUD officials agree that the performance measures used in the EZ program are output-oriented and believe that these are appropriate in the short term. They believe that the desired outcomes of the EZ program are subject to actions that cannot be controlled by the entities involved in managing this program. In addition, the impact of the EZ program on desired outcomes cannot be isolated from the impact of other events. Consequently, HUD believes that defining outcomes for the EZ program is not feasible.

Concerns about the feasibility of establishing measurable outcomes for programs are common among agencies facing this difficult task. However, because HUD and the EZs have made steady progress in establishing an output-oriented process for evaluating performance in the EZ program, they could build on their efforts to incorporate measures that are more outcome-oriented. Specifically, HUD and the EZs could describe measurable outcomes for the program's key principles and indicate how the outputs anticipated from one or more benchmarks will help to achieve those outcomes.

Conclusion

HUD has taken commendable steps toward establishing results-oriented measures for the EZ program. Among other things, the EZs have developed benchmarks that describe planned activities, as well as the baselines and time frames against which progress toward accomplishing individual benchmarks can be measured. However, HUD and the EZs are not yet measuring performance in a way that allows them to assess how much progress is being made in satisfying the program's four key principles because they have not yet (1) described measurable outcomes for the program's key principles or (2) indicated how the outputs anticipated from one or more benchmarks will help to achieve those outcomes. Unless they can measure the EZs' progress in producing desired outcomes, HUD and the EZs may have difficulty identifying activities that should be duplicated at other locations. In addition, HUD and the EZs may not be able to describe the extent to which the program's activities are helping to accomplish the program's mission.

Recommendation

We recommend that the Secretary of Housing and Urban Development work with the EZs to establish a process for incorporating measurable outcomes for the program's principles into any future revisions of the EZs' strategic plans and benchmarks. Among other things, this process should describe the outcomes anticipated from the EZs' activities, indicate how the outcomes will be measured, and identify the benchmarks helping to achieve each outcome.

Agency Comments and Our Evaluation

We provided copies of a draft of this report for review and comment to HUD and HHS. These agencies' written comments and our responses appear in appendixes IV and V.

In commenting on the draft, HUD said that it found the report to be a useful and accurate description and analysis of the status of the EZ/EC initiative. HUD also indicated two primary areas of concern about the report. First, HUD expressed concern that we did not understand its process for measuring performance for the EZ/EC program. This process uses the benchmarks as the basis for measuring quantitative progress in implementing the EZs' and ECS' strategic plans. We agree that HUD has established procedures for measuring individual activities within each EZ. However, more could be done to describe the program's anticipated outcomes and link individual activities to those outcomes. Such additional efforts should allow HUD and the EZs to better measure performance over the program's 10-year life. We revised the information in the report to

include HUD's concerns and to clarify the actions that HUD and the EZs can take to strengthen their evaluation efforts.

Second, HUD felt that the amounts of EZ/EC SSBG funds that have been drawn down, viewed in isolation, could be misleading as measures of the program's spending. HUD provided a list of amounts obligated by each EZ and asked us to include those obligations in table 1. However, the definition of obligations differs across the EZs. For example, one EZ defines obligations as the amount of money awarded under contracts. Another EZ defines obligations as the total value of the projects that have been approved by the city council, only a small part of which has been awarded under contracts. We chose not to include obligations in the table because including them would invite inappropriate comparisons across the EZs. However, we revised the report to indicate that higher amounts have been obligated by the EZs.

HUD also commented on the sections of the report in which we summarized the concerns of program participants about the role of the states, the lack of early administrative funding, and the pressure from the federal government and others for quick results. HUD asked us to revise these sections of the report because it felt that the concerns were inaccurate or did not recognize actions taken by HUD. As stated earlier in this letter and in the appendix on our scope and methodology, we did not independently analyze the factors identified by the respondents or examine their applicability across all of the EZs. Although we did add a sentence specifying when HHS obligated the EZ/EC SSBG funds, we believe that the report accurately and sufficiently covers participants' concerns about the topics mentioned, and we did not make other changes suggested by HUD. Finally, HUD suggested editorial and technical changes, which we incorporated when appropriate.

In its comments on the report, HHS said that it found the report very well done and thought provoking. HHS also noted that Philadelphia and Camden operate as two separate entities in many ways and thought that the report should treat the two parts of this EZ separately, rather than as one EZ. We agree that, for the most part, the two segments of this zone operate autonomously; however, we believe that discussing them together is appropriate because Philadelphia-Camden is a single, bistate zone. Furthermore, the administration of this EZ was not significantly different from that of the New York EZ, which has split its operations between two corporations covering distinct parts of the designated zone. HHS also thought that the report should include additional background information

about HHS' role in the program and raised a number of editorial and technical comments on the report. We revised the wording of the report, as appropriate, to address these comments. (See apps. IV and V for HUD's and HHS' comments on the report and our responses to those comments.)

We also sent the detailed information on each EZ to the applicable EZ director for review and comment. We received minor technical and editorial corrections from all of the EZs and incorporated these into the report as appropriate.

To assess the status of HUD's implementation of the six urban EZs and to describe the Department's plans for evaluating the initiative, we interviewed officials from HUD and HHS who were responsible for the EZ program and reviewed documents obtained from HUD, HHS, and the EZs. To understand the role played by public housing officials and residents in the EZ program, we surveyed representatives of the PHAs in the seven cities included in the six urban EZs using a structured telephone survey. We used interviews with EZ program participants and responses to a mailed questionnaire to identify factors that have helped or hindered efforts to carry out the EZ program.

We performed our work at HUD's Office of Community Planning and Development and HHS' EZ/EC Support Team in Washington, D.C. We also retained Dr. Marilyn M. Rubin, an expert with extensive knowledge in economic development and evaluation, to advise us on all aspects of our work. We performed our work in accordance with generally accepted government auditing standards from November 1995 through October 1996. Appendix III contains details on our scope and methodology.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Secretaries of Housing and Urban Development and Health and Human Services, as well as to the people who participated in our survey. Copies will be made available to others upon request.

Please call me at (202) 512-7631 if you or your staff have any questions. Major contributors to this report are listed in appendix VI.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Lawrence J. Dyckman". The signature is written in a cursive style with a large, prominent initial "L".

Lawrence J. Dyckman
Associate Director, Housing and
Community Development Issues

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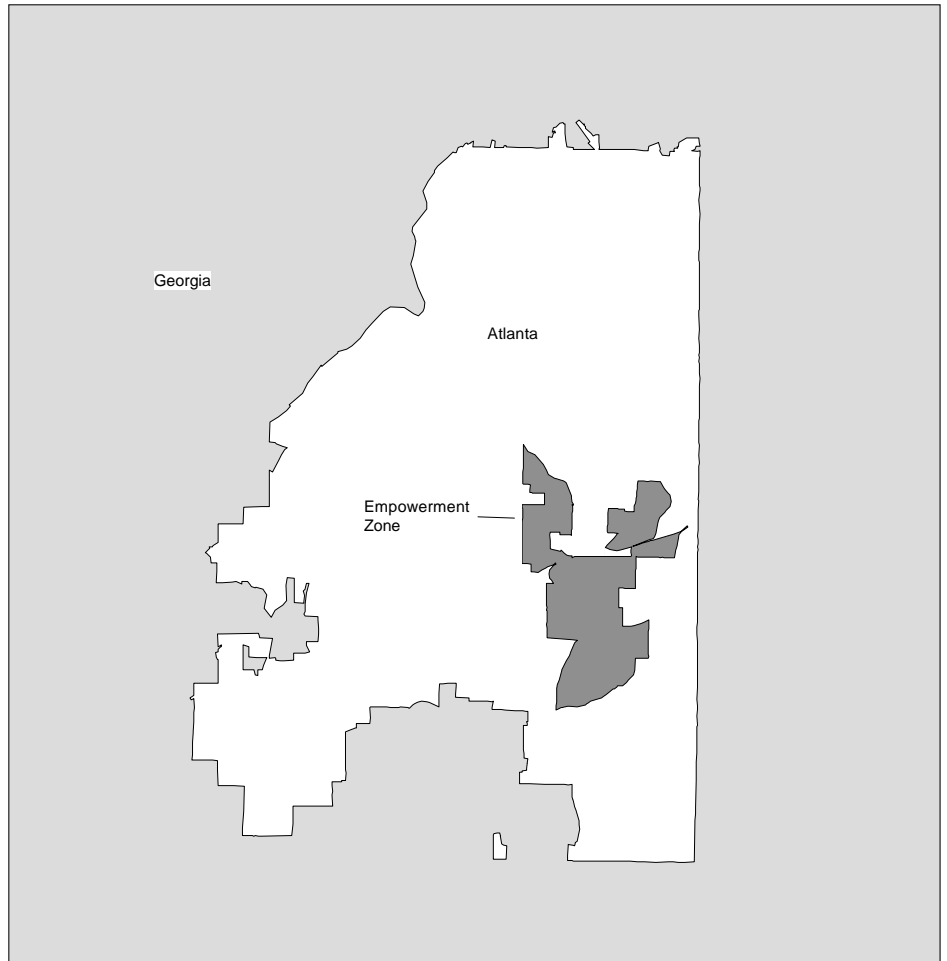
Abbreviations

EZ/EC	Empowerment Zone and Enterprise Community
EDI	Economic Development Initiative
SSBG	Social Services Block Grant
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
PHA	public housing authority
USDA	U.S. Department of Agriculture

Empowerment Zone Summaries

Atlanta, Georgia

Figure I.1: Atlanta Empowerment Zone



Governance

- The Atlanta Empowerment Zone Corporation was formed as a nonprofit organization to oversee the implementation of the strategic plan. It is headed by a president who answers to the executive board and includes staff to administer the programs and service contracts.
- The 17-member executive board comprises representatives of public agencies, service providers, the private sector, and the community, as well as 6 residents. The board is the final decision-making body for the EZ.

-
- The 36-member Community Empowerment Advisory Board will carry advice from the community to the executive board. This board consists of 1 representative from each of the 30 neighborhoods in the zone, plus 6 representatives from 39 communities adjacent to the zone.

Funding

The EZ/EC SSBG funds pass through the Georgia Department of Community Affairs to the city of Atlanta for use by the EZ. As of October 31, 1996, the EZ had obtained \$1,535,605 for administrative expenses that include costs for EZ personnel, consultants, travel, office equipment and supplies, and printing. A portion of these funds was used to support the community advisory board's office staff.

Strategic Plan

Atlanta envisions the EZ as an "urban village" working cooperatively to improve the quality of life in its neighborhoods and emphasizing development that is economically and ecologically sound. Atlanta has organized its planned activities into five categories:

- expanding employment and economic investment by increasing jobs, training for jobs, and transportation to jobs; attracting businesses to the EZ; and increasing sources of funds for businesses;
- creating safe and livable communities by increasing public safety; improving streets, sidewalks, lighting, and parks; and promoting ecologically sustainable communities;
- lifting youth and families out of poverty by confronting and reducing drug and substance abuse, increasing learning opportunities to reduce the number of high school dropouts, creating food cooperatives and community gardens to feed the hungry, and providing comprehensive human development programs;
- providing adequate housing for all by increasing access to credit, improving the affordability and availability of housing, increasing home ownership, and meeting the needs of the homeless; and
- providing governance by creating the corporation to implement the EZ's strategic plan.

Baltimore, Maryland

Figure I.2: Baltimore Empowerment Zone



Governance

- The Empower Baltimore Management Corporation, which has a president and chief executive officer, was formed as a public, nonprofit organization to oversee the implementation of the strategic plan.
- The corporation's board of directors, which is headed by a chairman, consists of 30 members including community leaders, city agency heads, and representatives of the business community, foundations, and universities.

-
- Six village centers have been created as public, nonprofit organizations that will help create sustainable communities.

Funding

The EZ/EC SSBG funds pass through the Maryland Department of Human Resources to the Empower Baltimore Management Corporation for use in the EZ. As of October 31, 1996, Baltimore had obtained \$2,095,500 of its EZ funds for administrative costs and grants. The administrative costs have included costs for salaries, printing, and office supplies and equipment. The grants have been awarded to fund a business empowerment center; the Fairfield Ecological Industrial Park; and the village centers.

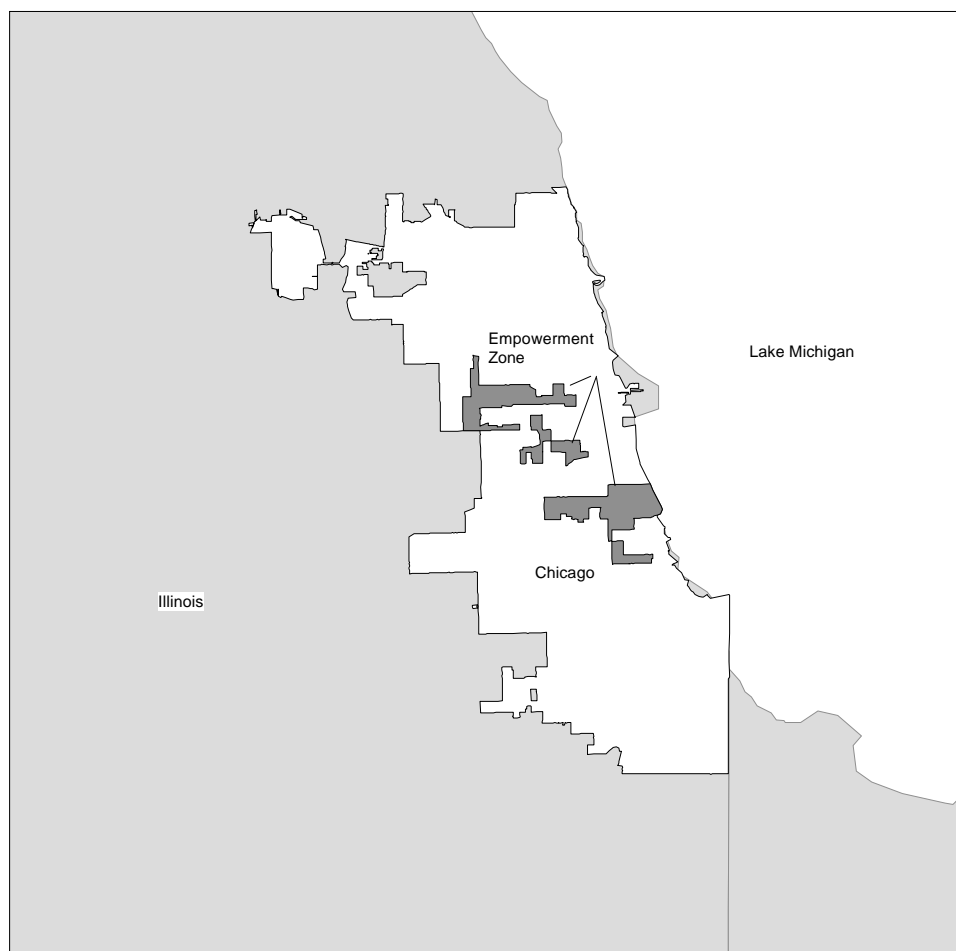
Strategic Plan

Baltimore's goal is to connect the EZ's workforce with the area's mainstream economy, rebuild all basic social and neighborhood systems simultaneously through comprehensive approaches, and solve problems and advance EZ initiatives through a highly mobilized citizen-resident force on a block-by-block basis. Baltimore has organized its planned activities into eight categories:

- community mobilization, which includes creating village centers, providing technical assistance to communities, and using information and community technology at the community level;
- community development, which includes developing a land-use plan and improving the area's overall environment and quality of life;
- public safety, which includes enhancing community policing, addressing substance abuse enforcement, and designing safe neighborhoods;
- housing, which includes facilitating home ownership, increasing the availability of affordable rental housing, and improving substandard housing;
- health and family development, which includes linking human services to support workforce development;
- education, training, and literacy, which includes providing a full range of training opportunities for EZ residents, such as training in classrooms and in local career centers;
- economic development, which includes strengthening and expanding existing businesses, attracting new businesses, and developing entrepreneurs within the EZ; and
- evaluating and monitoring, which includes operating the Empower Baltimore Management Corporation, as well as evaluating and monitoring the program.

Chicago, Illinois

Figure I.3: Chicago Empowerment Zone



Governance

- The EZ/EC Coordinating Council is the governing body of the Chicago EZ. Its 39 members include representatives from businesses and communities in the zone and officials from the city, county, and state governments. The council also includes representatives from three city-designated neighborhoods that the city wants to benefit from the zone's activities. The council's responsibilities include developing zonewide policies, identifying

support resources, and reviewing and recommending the approval of requests for funding projects aimed at implementing the strategic plan.

- Four committees established by the EZ/EC Coordinating Council manage the EZ. The Executive Committee calls meetings and establishes rules and procedures for the coordinating council. The Committee on Policy and Planning advises the council on the allocation of EZ funds, while the Committee on Finance monitors the receipt, use, and distribution of funds. Finally, the Committee on Community and Business Outreach promotes the benefits and services of the EZ to businesses and residents.

Funding

The EZ/EC SSBG funds pass through the Illinois Division of Family Support Services to the city of Chicago for use by the EZ. As of October 31, 1996, the EZ had drawn down \$279,000 to initiate projects that would rehabilitate office space for future use by businesses, establish a mechanism to link EZ residents with employers, promote home ownership, develop public schools into community learning centers, provide business training to 30 EZ residents with business potential, and create a partnership with a local college to prepare students for the General Educational Development tests. These projects are the first of 86 projects that were approved by the EZ in September 1996. Funding for these projects totals about \$45 million, including \$41 million in federal funds.

Strategic Plan

Chicago's two overall goals for the EZ are alleviating poverty and changing the way that the federal, state, county, and city governments interact with the EZ's residents. Chicago's strategic plan includes seven initiatives aimed at achieving these goals:

- building human and organizational capacity by developing programs that expand traditional job training projects to include life skills, job readiness, and apprenticeship and mentoring;
- linking health and human services by establishing a wellness system that encourages a healthy workforce through health screening, assessment, and medical referrals;
- improving public safety by increasing community security and providing opportunities for local residents to become more involved in making their environment safe;
- achieving economic empowerment by increasing investment in and by the community;

- developing affordable and accessible housing by expanding home ownership opportunities within the community and increasing the number of housing units for the elderly and persons with disabilities;
- enhancing youth futures by establishing youth training programs and youth-run businesses; and
- building on cultural diversity by promoting tourism and increasing and fostering cultural sensitivity.

Detroit, Michigan

Figure I.4: Detroit Empowerment Zone



Governance

- The Empowerment Zone Development Corporation was formed as a nonprofit corporation by state and local legislation to oversee the implementation of the strategic plan. An executive director, who is hired by the board of directors, heads the corporation and is assisted by other staff.
- The board of directors is composed of 50 representatives of all sectors in the community. Sixty percent of the board's members are community-based, including representatives of community development corporations, businesses, neighborhood councils, and places of worship. The remaining 40 percent represent the larger community, which includes government, corporations, banks, and foundations.
- An executive committee, which consists of 25 members selected from the board of directors, conducts the corporation's business.
- Neighborhood review panels will provide a way for the EZ's neighborhoods to convey new ideas or suggest revisions to the executive committee. The panels will consist of residential and business representatives from all three neighborhoods in the EZ.

Funding

The EZ/EC SSBG funds pass through the Michigan Family Independence Agency to the city of Detroit, which disburses funds to agencies implementing the programs and projects in the approved strategic plan under contracts approved by the Detroit City Council. As of October 31, 1996, Detroit had drawn down \$54,327 to begin a school-based program designed to reduce alcohol- and drug-related violence. In addition, Detroit has contracted with 18 agencies to implement projects totaling \$29.4 million in EZ/EC SSBG funds.

Strategic Plan

Detroit envisions healthy neighborhoods, strong families, and economic opportunities that provide well-paying jobs. Detroit has organized its planned activities into the following three categories:

- creating economic opportunity by improving businesses' access to capital, attracting new businesses to the EZ, linking residents to jobs, and increasing international trade and tourism;
- sustaining families by improving public safety; building on existing programs to support productive, stable families; improving the quality of learning; and integrating technology into training and educational programs; and
- upgrading neighborhoods by preserving and developing affordable housing, creating housing alternatives for the homeless, making

transportation more accessible, improving vacant land, increasing the reuse of contaminated land, and improving recreational facilities and programs.

New York, New York

Figure I.5: New York Empowerment Zone



Governance

- The New York Empowerment Zone Corporation is a local-city-state public benefit corporation. The corporation has a seven-member board

composed of representatives from Harlem, the South Bronx, New York City, and New York State.

- The Bronx Overall Economic Development Corporation and the Upper Manhattan Empowerment Zone Development Corporation are nonprofit organizations that plan and implement zone activities in their respective parts of the EZ. Their functions include directing the execution of contracts with service providers, negotiating contracts, and awarding contracts.

Funding

The EZ/EC SSBG funds pass through the state's Empire State Development Corporation to the New York Empowerment Zone Corporation for use by the EZ. As of October 31, 1996, the EZ had obtained \$511,202 of its funds.

Strategic Plan

New York envisions revitalizing the economic, social, and physical infrastructure of the EZ's neighborhoods. New York has organized its planned activities into five categories:

- creating economic opportunities by enhancing the small business base in neighborhoods, fortifying community-based organizations, providing comprehensive educational and job training programs, and aligning the EZ's neighborhoods and residents with economic opportunities in the city and region;
- preparing children and youth for a productive future by expanding and upgrading early childhood development and day care programs;
- supporting families by ensuring the availability and quality of, and increasing the funding for, a variety of support services, such as primary health care programs and substance abuse prevention and treatment programs;
- restoring and maintaining the EZ's infrastructure—its housing and open spaces—and making them safe;
- encouraging community involvement by increasing ways that residents can participate in decisions affecting their community, creating neighborhood planning centers, and connecting the EZ to the information superhighway through a communitywide network.

Philadelphia, Pennsylvania- Camden, New Jersey

Figure I.6: Philadelphia-Camden
Empowerment Zone



Governance

- The Philadelphia-Camden Bi-State Governance Board will provide oversight and guidance for regional aspects of the strategic plan.
- The Philadelphia segment of the EZ is divided into three neighborhoods—American Street, North Central Philadelphia and West Philadelphia—each of which has a Community Trust Board, whose

members are responsible for overseeing the EZ's activities in their neighborhood. The board members are elected by the zone's residents or appointed by the mayor.

- The Philadelphia Empowerment Zone Office is part of the city of Philadelphia's government. Its employees include people hired from the EZ's communities and staff on loan from other city departments. The office organizes communities and works with the community trust boards and neighborhood committees to implement the benchmarks in the neighborhoods.
- The Camden segment of the EZ has set up the Camden Empowerment Zone Corporation. Its board consists of 35 representatives, at least 12 of whom are residents elected to sit on the board. The remaining members are appointed by the mayor. The mayor and the mayor's department heads sit on the board as ex-officio members.

Funding

The EZ/EC SSBG funds pass through the Pennsylvania Department of Public Welfare to the city of Philadelphia for use by the EZ and through the New Jersey Department of Human Resources to the corporation. The EZ entities have agreed that the \$100 million will be split between the two cities, with Philadelphia receiving \$79 million and Camden receiving \$21 million. As of October 31, 1996, the EZ had obtained \$570,943 to buy sites for a supermarket and retail stores in the Philadelphia part of the EZ, which the EZ hopes will create jobs for residents.

Strategic Plan

The Philadelphia-Camden vision for the EZ is based on revitalizing the economic, social, and physical infrastructure of the zone's neighborhoods. The EZ has organized its activities into five categories:

- producing economic growth by creating 10,000 jobs over the life of the program;
- creating affordable housing by establishing a housing trust fund to support the development of at least 1,000 affordable dwellings for home owners and renters;
- supporting families by establishing a center to provide one-stop-shopping for family support services.
- improving public health by expanding medical services to the community through activities such as providing additional intake facilities for drug and alcohol programs and people with AIDS.

Appendix I
Empowerment Zone Summaries

-
- increasing safety by organizing and expanding community policing, developing 40 new Town Watch programs, and establishing community safety centers.

Factors That Have Helped or Hindered the EZs' Planning and Implementation Efforts

This appendix lists the factors that helped or hindered the planning and implementation of the six urban EZs, according to the participants we surveyed.

FACTORS THAT HELPED PLANNING AND IMPLEMENTATION EFFORTS

These factors were identified during telephone interviews with people involved in planning and implementing the EZ program. They are listed in the order in which they appeared in our questionnaire.

The committee structure that the EZ board established is effective.

The community is represented on the EZ's governance board.

The governance structure in the EZ is effective.

The EZ initiative has a good system for measuring outcomes.

The application guidelines and program requirements were clear.

The processes used to carry out the initiative are good.

The professional staff managing the EZs are competent.

The central staff appointed by the mayor have been helpful.

HUD generalists, that is, the day-to-day liaison staff employed by HUD, have provided important assistance.

The role of the state as a "pass-through" is clear.

Federal agencies are coordinating with each other.

HUD has taken a nontraditional role by working directly with the communities.

The EZ initiative promotes creativity in resolving urban problems.

The EZ initiative promotes creativity in simplifying processes.

The goals of the program, including empowering residents and creating sustainable communities, are commendable.

The "bottom-up," community-driven approach used in this initiative is effective.

Projects being implemented will lead to long-term improvements in the EZ.

The EZ initiative is unique.

The EZ initiative allows the community to be creative in meeting its needs; it is not a "one-size-fits-all" program.

Appendix II
Factors That Have Helped or Hindered the
EZs' Planning and Implementation Efforts

The EZ initiative allows for a combination of social service and economic development activities.

The foundation established by the legislation precludes the need for extensive bureaucratic involvement.

Regulatory waivers have been granted.

Stakeholders that did not previously interact are now talking with each other about community revitalization.

HUD employees and generalists have been responsive to questions.

HHS employees have been responsive to questions.

Community members are provided the opportunity to express their views, including dissenting views.

State officials have been helpful in providing information.

The EZ board has kept the stakeholders informed about EZ activities.

The local newspapers are supportive of the EZ initiative.

HUD's communications (e.g., conferences, satellite training, Internet usage) facilitate the distribution of information.

The funding has few "strings attached."

Tax incentives have contributed to investment interest in needy parts of cities.

Jobs are being created for EZ residents.

The private sector has provided resources to support the EZ initiative.

The public sector has provided resources to support the EZ initiative.

The EZ initiative has attracted new businesses to the EZ.

State and city tax incentives have supplemented federal incentives.

The state and the city enjoy a strong working relationship.

The EZ initiative forces the states to be stakeholders.

The support of the mayor has been helpful.

The EZ effort has bipartisan support.

High-level participation from the executive branch has enhanced the EZ initiative's credibility.

HUD and HHS have generally worked effectively as a team.

The community has not burned out in getting the EZ "up and running."

The EZ initiative has built on the city's established tradition of working with the neighborhoods.

The EZ initiative encouraged communities to think through in a comprehensive manner the needs of the community.

**Appendix II
Factors That Have Helped or Hindered the
EZs' Planning and Implementation Efforts**

The residents and organizations located in the zone are participating in the EZ initiative.

The EZ initiative has empowered the community to develop solutions to its problems.

A sense of optimism that was previously lacking is now apparent in the community.

HUD has provided technical assistance.

**Other Factors That
Helped Implementation**

Respondents to our questionnaire wrote in the following as other factors that helped efforts to plan and implement the program.

The initiative relies on the community to ensure adherence to the governance structure outlined in the strategic plan.

The community organized itself into grassroots clusters.

Implementation costs were absorbed by the city.

Federal agencies have better coordinated with their regional offices and/or promoted local decision-making.

There has been communication among EZ administrators in other cities.

EZ residents have taken responsibility for improving their community.

The EZ initiative's "bottom-up" approach has promoted grass-roots citizen participation.

The outcomes of the benchmarking process have been useful.

Community capacity to deal with complex topics has increased.

Tax incentives have helped current businesses in the EZ to retain or create jobs.

HUD has been willing to defer to local decision-making.

The local government has looked to "reinvent" its means of contracting for program services.

HUD and HHS have made their requirements clear and given localities sufficient notice of them.

The initiative has brought forth new, capable community leadership.

Appendix II
Factors That Have Helped or Hindered the
EZs' Planning and Implementation Efforts

FACTORS THAT HINDERED PLANNING AND
IMPLEMENTATION EFFORTS

These factors were identified during telephone interviews with people involved in planning and implementing the EZ program. They are listed in the order in which they appeared in our questionnaire.

The members of the local governance structure have had difficulty working together as a team.

States create an unnecessary layer of bureaucracy.

The rules on developing governance structures were unclear at the beginning of the EZ initiative.

No system is in place to measure how the EZ residents benefit from the EZ initiative.

The size of the EZ is too large, making it difficult to manage.

Clearly defined programmatic rules, regulations, and guidelines have been lacking.

Some applicants for contracts have received preferential treatment.

The process for developing the strategic plan was rushed.

Selecting an appropriate governance structure was difficult.

EZ program management and SSBG financial management are not handled by the same federal agency.

Defining who should be included as a community stakeholder is unclear.

There are insufficient incentives for attracting businesses to the EZ.

The city is not comfortable with the expanded role of the community.

The EZ boundaries were drawn using Census tracts instead of existing neighborhoods.

The people making decisions about which projects to undertake in the EZ are also involved in providing services to support those projects.

The definition of "reinventing government" is unclear.

The role of the professional staff hired by the EZ is unclear.

The extent of flexibility and innovation that was originally envisioned for the initiative has not been realized.

The role of the generalist is unclear.

The private sector is not as aware of the initiative as it could be.

The role of the state is unclear.

The state's SSBG title XX agency is the pass-through for federal funding.

Tax incentives are difficult to use.

The waiver process has not been helpful.

Appendix II
Factors That Have Helped or Hindered the
EZs' Planning and Implementation Efforts

The private sector has not followed through on its commitments.

Local governments were not required to reinvent their processes.

HUD dictates some decisions instead of seeking opinions from the community.

The EZ legislation included conflicting objectives in establishing a community development program with economic development goals using SSBG funding.

Each EZ does not receive the same information at the same time from the federal government.

HUD has not always been responsive to requests for information from the community.

Clear guidance for developing the strategic plans was lacking.

Clear guidance for developing the benchmarks was lacking.

HUD oversold the EZ initiative to the community.

EZ residents sometimes feel left out of the decision-making process.

The federal government has not always provided sufficient information to the state.

Stakeholders have received inconsistent information from HUD and HHS.

Preexisting relationships led to conflict and mistrust among EZ stakeholders.

Outreach to EZ residents has been limited.

Turnover of HUD personnel has impeded communications with HUD.

Pressure for quick results from the media has resulted in unrealistic expectations on how quickly progress can be achieved in the EZ.

There was no funding for up-front administration of the EZ initiative.

Misconceptions about the amount of money targeted for the zones have fueled opposition to the initiative.

The potential private-sector contribution has not been completely tapped.

EZs could not use EZ funds as matching funds for other federal programs.

Residents and businesses bordering the EZ receive too little EZ funding.

Financial monitoring and reporting requirements are lacking.

The process required for the community to get funds has too many layers of review and approval.

Nontraditional use of SSBG title XX funds has resulted in confusion over what types of projects are eligible for funding.

Some key federal agencies other than HUD and HHS were not involved in the initiative.

Support for the initiative from the city is lacking.

**Appendix II
Factors That Have Helped or Hindered the
EZs' Planning and Implementation Efforts**

Support for the initiative from the state is lacking.

Agreement between EZ residents and the city has been lacking.

Politically motivated disagreements between state and city governments delayed implementing the program.

Coordination between federal agencies, especially HUD and HHS, has been lacking.

Interstate and/or intrastate competition keeps communities from attracting new business.

Pressure for quick results at the federal, state, and/or local levels has resulted in unrealistic expectations on how quickly progress can be achieved in the EZ.

The communities have weak project management skills, including team-building and planning skills.

Sustaining community participation is difficult.

Communities were not provided with models of community participation strategies or governance structures.

The role of the community as an advisory body is an unfamiliar concept to city leaders and EZ residents.

Budgetary cutbacks at city, state, and/or federal government agencies have affected the EZ's ability to carry out planned activities.

**Appendix II
Factors That Have Helped or Hindered the
EZs' Planning and Implementation Efforts**

**Other Factors That
Constrained Implementation**

Respondents to our questionnaire wrote in the following as other factors that hindered efforts to plan and implement the program.

New or "reinvented" roles of stakeholders have led to contentious, slow-moving progress

EZ geographic limitation of 5 square miles and population limit of 200,000 caused community dissension.

Integrating EZ funds with other federal, state, city, public, and private funds has been difficult.

HUD has not been supportive of local governance structures and has not helped get them up and running.

There has been a lack of agreement among the different noncontiguous neighborhoods that make up the EZ.

There has been a lack of involvement and outreach to local elected officials.

There has been poor delineation of staff roles and responsibilities among the various public/community partners.

State's pass-through for EZ/EC SSBG funding is a community/economic development agency, not the usual title XX agency office.

The process (review and approval requirements) for the EZ to get funds was poorly defined.

The flexibility of programmatic uses for EZ/EC SSBG funds resulted in concern and confusion at state and local levels.

Scope and Methodology

To assess the status of HUD's implementation of the six urban EZs and to describe the Department's plans for evaluating the initiative, we interviewed officials from HUD and HHS who were responsible for the EZ program. We also reviewed HUD's and HHS' application and implementation guidance and policy memorandums, evaluation plans, and other relevant documents. We interviewed the EZ directors in all six urban EZs and visited the Atlanta, Baltimore, and Philadelphia-Camden EZs. We also reviewed the EZs' strategic plans, benchmarks, status reports, and funding documents. We did not evaluate whether the EZ program will meet its objectives. We also did not examine the use of tax incentives or of funds other than the EZ/EC SSBG funds.

To understand the role played by public housing officials and residents in the EZ program, we surveyed representatives of the PHAs in the seven cities included in the six urban EZs. Using a structured telephone survey, we asked the PHA representatives (1) to what extent, if any, the PHA and its residents were involved in the EZ's activities before and after their city was designated as a federal EZ and (2) whether they felt their level of involvement was appropriate. We did not evaluate the adequacy of the PHA officials' or the public housing residents' participation in the EZ program.

To identify factors that have helped or hindered efforts to carry out the EZ program, we interviewed 28 participants who represented all six EZs and included EZ directors, governance board members, state officials involved in drawing down the EZ/EC SSBG funds, generalists hired by HUD, and HUD and HHS employees. We selected these participants from a list provided by HUD. To obtain more consistent reactions to the factors that these individuals identified, we listed all of the factors in a questionnaire and mailed 34 questionnaires to 32 participants, including those we had already interviewed. One HUD generalist received three questionnaires—one for each of the cities with which he works. We did not independently analyze the factors identified by the respondents or examine their applicability across all of the EZs.

The questionnaire asked the survey recipients to indicate the extent to which each factor had helped or hindered the program's implementation. We also asked the recipients to elaborate on the factors that most extensively helped or hindered implementation and to identify possible remedies for the impediments. Finally, we asked the recipients to pick the three factors that had helped efforts the most and the three factors that had hindered efforts the most. Two people told us they preferred not to return the questionnaire. One was a private-sector representative on an EZ

board who was concerned that completing the questionnaire could be perceived as an endorsement of the program. The other was a state government official who said that he was not sufficiently involved in the program to be able to complete the questionnaire. We received 27 completed surveys from respondents representing all of the EZs, as well as the federal and state governments.

In general, the factors discussed in this report were the ones that were most often identified by respondents as (1) having a great or very great impact on the program's implementation²¹ and (2) having helped or hindered implementation more than other similar factors. The results of this survey cannot be generalized to the entire EZ/EC program.

We performed our work at HUD's Office of Community Planning and Development and HHS' EZ/EC Support Team in Washington, D.C. We also retained Dr. Marilyn M. Rubin, an expert with extensive knowledge in economic development and evaluation, to advise us on all aspects of our work. We performed our work in accordance with generally accepted government auditing standards from November 1995 through October 1996.

²¹For each factor, we asked the survey recipients to use a five-point scale—little or no extent, some extent, moderate extent, great extent, and very great extent—to indicate the extent to which that factor had helped or hindered efforts to plan and implement the program.

Comments From the Department of Housing and Urban Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

November 22, 1996

Mr. Lawrence J. Dyckman
Associate Director
Housing and Community Development Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Dyckman:

Thank you for the opportunity to comment on your proposed report entitled Community Development: Status of Urban Empowerment Zones.

When President Clinton and Vice-President Gore set out to implement the Empowerment Zones/Enterprise Communities Initiative nearly two years ago, their goal was to create sustainable economic opportunities in America's most distressed communities. After only two years into this 10-year initiative, we are beginning to see notable results.

I was pleased to see that your draft report highlights several factors contributing to the success of the Empowerment Zones: "community representation on the EZ governance boards, technical assistance provided by HUD's contractors, enhanced communication among stakeholders, and support from the city's mayor and from White House and cabinet-level officials" (p. 3). I am also pleased to see that officials from the public housing authorities "...are optimistic about their involvement in the EZ program and believe that it will continue or increase" (p. 12). We plan to build on these strengths and we hope to expand these early successes with a second round of Empowerment Zones.

The Department's comments on your draft are enclosed. If there is additional information you would like, please do not hesitate to contact me. Thank you again for the opportunity to comment.

Sincerely,


Henry G. Cisneros

Enclosures

HUD'S COMMENTS

on GAO's Proposed Report
Community Development: Status of Urban Empowerment Zones

In general, the Department finds the GAO draft to be a useful and accurate description and analysis of the status of the Empowerment Zone/Enterprise Community initiative. We believe that the Empowerment Zones and Enterprise Communities, as well as the Federal and state agencies involved in the program, will find the report to be a valuable tool as implementation continues.

There are two major areas in which the report is not entirely accurate or complete: (1) the analysis of performance evaluations undertaken by HUD to measure program results and (2) the analysis of fund obligations and expenditures. The bulk of our comments respond to these two issues. In addition, there are a number of secondary issues which should be addressed for the sake of accuracy.

MEASURING THE PRINCIPLES: The GAO draft states that HUD and the EZs are not yet measuring performance in a way that allows them to assess how much progress is being made in satisfying the program's key principles (page 3). Specifically, the Draft asserts that neither HUD nor the EZ's have (1) described the program's principles in measurable terms or (2) linked the individual benchmarks to measurement of the program's principles (page 20).

HUD RESPONSE: Although GAO was very thorough in interviewing HUD staff about implementation issues, there was no significant inquiry or discussion into the performance evaluation process. Since there was no request on this subject, HUD did not provide the available substantial materials documenting the performance measurement process. We feel sure that if HUD had the opportunity to present to the GAO team the EZ/EC performance measurement process, the report could not reach the current conclusions. We would like to request this meeting.

Visible, measurable change in distressed communities is the chief goal of the EZ/EC initiative. Unlike typical Federal programs, which measure process or funds expended, the EZ/EC initiative measures *results*. Performance Benchmarks provide a blueprint for an entrepreneurial, no-nonsense way to distribute funds and fulfill commitments. The EZ/EC Performance Review uses the benchmarks as the basis for measuring quantitative progress in the implementation of EZ/EC strategic plans. Contrary to the GAO draft, the performance review does describe the program's principles in measurable terms, and clearly links individual benchmarks to these measures.

See comment 1.

The basic principles of the program--economic opportunity, sustainable community development, broad participation among community-based partners, and a strategic vision for change--are very broad. This was a conscious part of the "bottoms-up" program design intended to set general national principles translated locally into specific goals and strategies. Washington does not impose performance measures. Rather, each EZ/EC identifies its own performance benchmarks within Categories of Need for each general program principle. The Department's performance review system then specifically measures progress against each benchmark within each category of need. The performance reporting system is supplemented by field monitoring and outside assessments, all of which translate the program's principles into measurable terms, linked to the individual benchmarks through categories of need.¹

With seventy-one cities across the nation engaged in benchmarking and performance reviews, this initiative represents the most ambitious experiment to date with performance driven grant management. We are confident that GAO will find the EZ/EC performance review system to be a model as the Federal government increasingly moves toward performance measurement. The enclosed materials provide additional background for the requested meeting.

We request that the draft be amended to reflect the strength of the performance review process.

Appendix A: Performance measurement templates used by the Empowerment Zones.

Appendix B: Examples of completed templates from Atlanta, Georgia and Detroit, Michigan.

RELEASE OF FUNDING: The GAO draft states, "Immediately after designation, some EZs did not have the financial and/or human resources that they needed to perform the program's initial administrative activities. The Federal government did not release funds to the EZs until agreements were signed by the Federal, state and city governments" (page 16). Respondent recommendations included "providing a portion of the SSBG funds to the EZ for administration immediately after designation" (page 17).

¹ For example, the Statement of Work for the outside contractor clearly links results to the principles: "Selecting the appropriate measures to use should be driven by the four principle objectives or principles of the EZ/EC program: providing economic opportunity; sustainable community development; community-based partnerships; and strategic vision for change" (p. 8). The Research Statement and Protocol states that data collection and measurement "will be organized around the four key principles of the EZ/EC Initiative . . ." (p. 2). The Performance Review kit includes a narrative of progress "against each long-term goal (i.e. category of need) in the EZ/EC strategic plan" as well as a matrix of "projected milestones and results, and in the next column, actual milestones and results" for each activity for each category of need (Source: Performance Review instructions).

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Comments From the Department of Housing
and Urban Development

See comment 2.

3

HUD RESPONSE: The draft is factually incorrect regarding the release of funds. For each EZ, \$50 million in block grant funds (50 percent of the award) was released to each state administrative entity in December 1994. The Federal government relinquished control of the funds at this time. The remaining 50 percent was released to the states in October 1995.

The agreement signed by the state, city, and HUD governed the release of funds by the *state*. It was designed to ensure that states and cities fulfill their commitments to the Empowerment Zones. The agreement did not delay the release of funds for administrative purposes. Each EZ/EC was advised that HUD would support limited requests for administrative draw-downs for start-up costs. Since only the state has authority to release the Title XX SSBG funds, HUD sent letters of support to the state on behalf of any EZ/EC which requested administrative funds. Please see the enclosed letter to New York, New York. Even though the Federal government supported the limited release of funds for this purpose, states have ultimate control over the funding and in some cases may have delayed or refused to release funds.

The draft should recognize that all funds were obligated in a timely fashion by the Federal government and that HUD recognized and responded to the need for administrative funds, within the Department's authority.

The draft reports that all EZs but one have drawn down funds for administrative costs and specific activities (page 10). The chart on page 9 indicates approximately \$4 million drawn down.

See comment 3.

HUD has strongly encouraged communities to utilize the Title XX SSBG funds as seed money to leverage additional investments. Draw-downs, viewed in isolation can be misleading. A more accurate and complete analysis would include not just draw-downs but also the EZ funds locally obligated to specific activities, but not yet expended. These obligations are made through local governance board approval, city council approval, and state approval. **The Empowerment Zones have obligated \$172 million of the \$600 million awarded, indicating that the EZs are on schedule to expend and draw-down EZ funds within the designation period.** A chart breaking out the specific obligation amounts for each city is enclosed as Appendix D.

We request that the chart on page 9 include the amount of Title XX SSBG funds obligated by each Empowerment Zone. We also request that the text be revised to explain that obligations are on schedule.

Appendix C: Sample letter to New York, New York granting authorization to use SSBG funding for administrative start-up costs.

Appendix D: Obligations by Empowerment Zone

ROLE OF STATES: The GAO draft suggests that to prevent "cumbersome state reviews", the Federal government should have clarified "early in the program that the state's role is minimal" (page 16).

HUD RESPONSE: On March 27, 1995, Donna Shalala, Secretary of the U.S. Department of Health and Human Services sent a letter to the states about their limited role in the EZ/EC program. The letter states:

"Throughout this effort to support the Zones and Communities, the EZ/EC program philosophy affirms that residents of the target areas are empowered to decide how resources should be used. The Federal team must look to the locally-developed strategic plan and the decision-making process of the local program governance structure to determine what, where, and how resources should be applied. We urge the States to do the same...It was the intention of the Federal government that States serve as fiscal intermediaries for the EZ/EC SSBG grant, providing funds to the lead entities or their designees with as few restrictions on the flexible use of money as possible under the law. This approach is clearly articulated in the EZ/EC Application Guide and related regulations and publications. We urge States to carry out their responsibilities as grantees in the spirit of this 'bottom up' program."

We request that the draft be revised to reflect that, early in the program, the Federal government did clarify the state's minimal role.

PUBLIC HOUSING: The GAO draft states, "Although public housing officials in three EZs indicated that their EZ could have involved the public housing authority or public housing residents to a greater extent, most of the officials were optimistic about their future involvement in the program" (page 2).

HUD RESPONSE: We are pleased the GAO survey found optimism among public housing officials. In addition to the involvement of public housing residents and officials in the EZ strategic planning process, HUD has created strong incentives to integrate public housing with EZ program implementation.

For example, the Department has demonstrated a financial commitment to moving Empowerment Zone public housing residents from welfare to work. On August 15, 1996, the Department awarded nearly \$21 million through the Early Childhood Initiative to provide childcare services to enable public housing residents in Empowerment Zones to seek or retain employment.

See comment 4.

See comment 5.

The draft states that a local official "saw an opportunity to coordinate HUD's HOPE VI program with EZ activities" (page 12). We are pleased to report that the Department is providing incentives to coordinate the programs. HUD's Office of Public and Indian Housing (PIH) gives preference for public housing authorities in Empowerment Zones which request funding from the HOPE VI program. In the 1996 competition, housing authorities in all six urban Empowerment Zones received HOPE VI funds to revitalize or demolish severely distressed public housing.

We believe the draft should be revised to reflect that HUD has taken concrete steps to improve cooperation and coordination between the EZs and public housing authorities.

PRESSURE FOR QUICK RESULTS: The GAO draft states, "Pressure for quick results from officials at the Federal, state, and/or local levels, as well as from the public, was also identified as an impediment...Respondents suggested that the Federal government should...emphasize and encourage the replication of best practices and the transfer of technology among the zones" (page 17).

HUD RESPONSE: The EZ/EC program was designed to allow each community to set its own goals and time table. The program encourages EZs and ECs to proceed at their own pace. In many cases, EZs decided that their first goals were to improve capacity and increase citizen participation. In other cases, EZs and ECs moved to immediately implement specific projects. Regardless of the goal, HUD's role is to hold the EZs accountable for staying on their own schedule and achieving the goals that the Zones themselves established.

HUD has employed a variety of innovative methods to encourage replication of best practices in EZs:

- * EZ/EC Satellite Network: Periodic video conferences permit EZ/EC residents from around the country to participate in discussions about Federal and private programs in support of EZs and ECs. Past sessions included a seminar on supermarket development in inner cities and a multi-agency presentation on federal economic development programs.
- * EZ/EC and HUD Home Pages: These internet sites (www.ezec.gov and www.hud.gov) are filled with information about the EZ/EC program, the communities, and resources for community and economic development.

See comment 6.

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- * EZ "Flashes" and Newsletters: Published frequently and faxed to community development professionals and EZ/EC residents throughout the country. They detail best practices, provide updates on the program, list opportunities for obtaining Federal resources, and news from the communities.

In addition, the Department is compiling a comprehensive EZ Best Practices report, which will be printed and posted on the Internet.

We believe the draft should be revised to reflect that the Federal government has crafted a balanced approach which permits EZs to proceed at their own pace, while holding them accountable for results. In addition, we believe the draft should be revised to reflect HUD's success in communicating best practices.

CONSULTANTS: The GAO draft states, "The nominations were reviewed by the EZ/EC task force, which consisted of Federal employees and detailed from many Federal agencies, augmented by consultants" (page 5).

See comment 7.

HUD CLARIFICATION: Some readers might infer that consultants reviewed the applications for the competitive award process. In fact, only Federal employees reviewed them. No consultants were used.

The phrase "augmented by consultants" should be deleted.

10-YEAR PROGRAM: The GAO draft suggests that "...the Federal government stress in its marketing efforts that this is a 10-year program" (page 16).

See comment 7.

HUD CLARIFICATION: The Federal government does not "market" the program -- this is done at the local level.

We suggest deleting "in its marketing efforts".

GENERALISTS: The GAO draft states, "The generalists hired by HUD to work on a daily basis with the zones have been accessible and have provided important assistance to the zones...the generalists are seen as people who can cut through the bureaucratic "red tape" and get things done in the community" (page 14).

See comment 7.

HUD COMMENTS: We are pleased the GAO draft found that community residents and local officials value the hard work of the generalists. We believe their role can serve as a model for a second round of Empowerment Zones and for other Federal programs.

As lead agency for the urban EZs and ECs, HUD has two very distinct--and somewhat contradictory--roles:

- * HUD's primary role is to *facilitate* the implementation of the strategic plans
- * HUD's regulatory role is to *monitor* the progress of the implementation.

These two roles--facilitating and monitoring--are in many respects diametrically opposed, making it difficult for a single program entity to fulfill both functions at the same time. The Office of Community Planning and Development has addressed this dilemma through a unique approach to program management. In the Empowerment Zone initiative, the roles of facilitator and regulator are segregated. Private sector community development specialists serve the facilitation function, with HUD headquarters and field staff providing regulatory oversight. This system of checks and balances avoids the conflict inherent when the two functions are combined in the same program. And the objectives of both functions are better served by this system: communities receive the highest quality assistance from a team of nationally recognized program and policy experts; HUD staff can focus on ensuring an objective assessment of program progress. Most important, the strength and weaknesses identified by HUD monitoring can then be used to help shape facilitation efforts, thus providing a link between HUD's regulatory mission and the development of technical assistance strategies for Empowerment Zones.

The Department's efforts to facilitate the implementation of EZ/EC strategic plans are coordinated by regionally based technical assistance "generalists." Generalists act as liaisons to communities and provide a variety of services intended to support EZ/ECs:

- * Single Point of Access for a broad variety of technical assistance

Through a "College of Experts," communities may access the nation's foremost specialists in economic and community development, including community development financing, service integration, educational technology, job training linkages, community policing, business development, and other areas of community development.

* Information Resource

Generalists provide information about Federal programs and private sector initiatives available to EZ/ECs. Through the interagency Community Empowerment Board, generalists help get quick responses from the Federal government on issues relating to strategic implementation.

* Link to the Community

A key role of the generalists is working directly with community residents to foster substantial community involvement in strategic plan implementation.

HUD CLARIFICATION: The report does not fully define or describe the generalist's role in EZ/EC implementation. Some additional description would be helpful.

GAO CONCLUSION and

RECOMMENDATION: The GAO draft states, "We recommend that the Secretary of Housing and Urban Development work with the EZs to ensure that (1) each EZ describes the program's key principles in measurable terms so that the EZ and HUD can measure the program's results over time and (2) the individual benchmarks are linked to the measures for key principles" (page 20).

HUD RESPONSE: As stated earlier in our comments, the Department believes the EZ/EC program represents the most ambitious experiment to date with performance driven grant management. We are confident that GAO will find the EZ/EC performance review system to be a model as the Federal government increasingly moves toward performance measurement.

Also, it is unclear if the conclusion is meant to be the conclusion for the entire report, since it discusses only the final section on performance evaluation and does not address any other aspect of the report.

See comment 1.

The following are GAO's comments on HUD's letter dated November 22, 1996.

GAO Comments

1. Throughout our assignment, we have included program evaluation as a topic in interviews that included the Office of Community Planning and Development's General Deputy Assistant Secretary and Special Assistant to the General Deputy Assistant Secretary, and the Office of Economic Development's Director and Deputy Director, as well as members of the EZ/EC task force. As recently as October 16, 1996, we asked the Deputy Director of the Office of Economic Development, under which the EZ/EC task force is located, for a copy of the reports on the EZs' performance. We were told they were not available. After receiving HUD's comments on this report, we talked with the General Deputy Assistant Secretary, who provided an example of a performance report from one EZ and told us that HUD's analysis of the EZs' reports and the results of short-term reviews that are being performed by a contractor were not yet available. The section of our report on evaluating the EZ program is not meant to detract from the efforts that HUD and the EZs have already made in setting up a system to track and measure activities in each zone. On the contrary, we believe that the steps taken so far are essential in building a set of outcome-oriented performance measures. We revised the report to clarify our support for measuring the program in results-oriented terms and to include HUD's position on outcome measures.

2. We agree with HUD that the federal government obligated the EZ/EC SSBG funds in a timely manner and have added language to that effect. Although HUD sent a letter to the EZs on the use of funds for administrative operations, this section of the report restates comments made by people involved in the program at the federal, state, and local levels. As we stated in the beginning of that section of the report and in the appendix on our scope and methodology, we did not independently analyze the factors identified by the respondents or examine their applicability across all of the EZs. We believe the report accurately and sufficiently covers the program participants' concerns about the lack of administrative funding.

3. We chose not to include obligations in the table because there is no standard definition for obligations below the federal level. Therefore, including the numbers in a table would invite comparisons of amounts that are not comparable. The EZs' definitions of obligations range from obtaining approval for a project's funding from the city council to

awarding a contract. However, we have revised the report to indicate that higher amounts have been obligated by the EZs.

4. As noted in comment 2 above, this section of the report restates comments from people involved in the EZ program. As we said in the beginning of that section of the report and in the appendix on our scope and methodology, we did not independently analyze the factors identified by the respondents or examine their applicability across all of the EZs. Furthermore, in the background section of the report, we acknowledged that HHS encouraged the states to carry out their EZ funding responsibilities with as few restrictions as possible under the law, a statement that we based on the same letter that HUD quotes. We also note in the background section of the report that the state is fiscally responsible for the funds. This statement is related to another part of the letter from HHS that says (1) the states will technically be subject to possible recoupment actions by HHS if an EZ or EC uses the EZ/EC SSBG funds to finance an activity not allowed by the authorizing statute and (2) the state can hold localities accountable for the appropriate use of funds. We believe the report accurately and sufficiently covers the program participants' concerns about the states' roles.

5. We revised the report to indicate that HUD identified these two examples of programs that involve both the EZs and public housing officials.

6. As noted in comment 2 above, this section of the report restates comments from people involved in the EZ program. As we stated in the beginning of that section of the report and in the appendix on our scope and methodology, we did not independently analyze the factors identified by the program participants. We agree that HUD has a variety of methods for communicating with the EZs, a factor that was included in our survey. However, too few program participants indicated that this factor helped implementation efforts to a great or very great extent for us to include the factor in the report. Consequently, we feel that no change is needed.

7. We revised the report to include these suggestions.

Comments From the Department of Health and Human Services

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

NOV 29 1998

Lawrence J. Dyckman
Associate Director
Housing and Community Development Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Dyckman:

Thank you for the opportunity to provide comments on the proposed report, Community Development -- the Status of Urban Empowerment Zones.

Overall, the HHS EZ/EC Support Team, my staff, and I find this report very well done and thought provoking. It will provide useful information to Congress and the Administration as the implementation of the Empowerment Zone and Enterprise Community program continues.

We do have one general and several specific comments, each of which are outlined below.

General Issue

The report could be improved if it included additional background information about the HHS role concerning the fiscal aspects of the program. HHS has made a major commitment to collaborate with our partners at HUD, which has the lead responsibility for managing this initiative for the urban sites. We work closely with HUD concerning the overlap between programmatic and fiscal issues. In this context, our staff has been instrumental in working with HUD, state agencies, and local entities on a range of fiscal issues during the early phases of the implementation process.

See comment 1.

Specific Issues

A) Page two, second full paragraph --

See comment 2.

The draft notes that there are six urban EZs, and provides statistics about them.

This paragraph would be clearer if it acknowledged that the Philadelphia / Camden Zone is, for all intents and purposes, composed of two very distinct entities governed by separate organizations, that undertake some joint projects. The presentation of the Philadelphia / Camden Zone as one entity skews the summary data included in this paragraph and other segments of the report.

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The paragraph states that, "Also, as of September 30, 1996, all but one EZ had used part of the \$100 million grant that is available to each EZ for the 10-year period." HHS draw down reports indicate that three Zones -- Chicago, Detroit, and Camden -- had not used federal funds as of the end of Fiscal Year 1996, although Chicago had drawn down funds as of mid-November 1996.

See comment 3.

B) Page four, first paragraph, third sentence --

The draft notes that OBRA '93 authorizes HUD to "set the length of designation at 10 years...."

Your referral to the 10-year time period is not quite correct. The statute indicates that the designation period of any individual Zone is the shortest of three options: 1) ten years; 2) the period of time established by the nominating state and local governments; or 3) the period between the designation and a date the Zone is terminated by HUD.

Therefore, this paragraph could be made more precise by indicating that Congress empowered each nominating state and locality to choose a designation period, and that ten years is the maximum period allowed by the statute.

See comment 3.

C) Page four, second paragraph --

The paragraph includes background information about the allocation of special SSBG funds for EZs.

This paragraph would be made clearer if it included an explanation that Congress appropriated \$1 billion in new funds to HHS to be used by the Zones and Communities. Furthermore, readers may find it helpful if the report were to indicate that the OBRA '93 amendments to the Social Security Act apply only to this special appropriation. (The amendments have no effect on funds appropriated at other times for projects authorized in Title XX.)

Because this is an important distinction, we have designated the term "EZ/EC SSBG" as the name for the funds appropriated for this effort in OBRA '93 and awarded to states for distribution to Empowerment Zones and Enterprise Communities. We encourage you to adopt this naming throughout the report.

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See comment 3.

D) Page five, first paragraph --

The report indicates that HUD and USDA published an application guide, conducted technical assistance workshops, provided technical assistance, and so forth.

It is important to acknowledge in your report that the EZ/EC Initiative represented a unique "team" effort across the government. Many federal agencies and departments collaborated with HUD and USDA on these two pre-application tasks. Several departments, including HHS, worked closely with the two lead agencies in developing specific language to be included in the application guidebook. Likewise, many departments including HHS, were heavily involved in the dozen or so "technical assistance" workshops about the EZ/EC application process that the federal government produced for potential applicants around the country in the spring of 1994. It is useful to underscore the inter-agency collaboration that is a hallmark of the EZ/EC Initiative in both its development and implementation.

See comment 3.

E) Page six, first full paragraph --

Your report indicates that each EC was "allocated just under \$3 million...."

The precise amount allocated for each Enterprise Community was \$2,947,368.00.

See comment 3.

F) Page 10, first full paragraph --

Two points:

1) The second sentence indicates that "states decided which state agency would receive the federal grant...."

In fact, HHS initially awarded the grant to the state agencies that were the usual recipients of SSBG grants, but the states decided which state agency would receive the federal grant. Several states, including Georgia and New York, asked HHS to re-award the funds to other state agencies, and HHS complied with their wishes.

2) The final phrase of the final sentence indicates that HHS does not require states to follow OMB Circular A-87.

A more precise statement would be that OMB does not require states to

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follow Circular A-87, or specific other Circulars, when administering certain grants including the Social Services Block Grant. While footnote 11 includes a general statement about this fact, the text might be confusing for some readers in that it implies that HHS independently made the determination that only particular OMB circulars apply to the EZ/EC SSBG grants.

See comment 3.

G) Page 11, first partial paragraph --

Another important consideration in the relative expenditures of EZ/EC SSBG funding is that some localities are using funding from other sources first, including state and local resources.

See comment 3.

H) Page 16, final paragraph --

The text includes the following sentence: "The federal government did not release the SSBG funds to the EZs until agreements were signed by the federal, state, and the city governments."

It will be valuable to include a more thorough explanation of the situation concerning the initial draw downs of funds. As required by OBRA '93, HHS awarded the first \$50 million installment to appropriate states on the day HUD designated the EZs, and the second \$50 million on October 1, 1995. HUD did ask each EZ to refrain from accessing the funds until a "Memorandum of Agreement" was signed by the EZ city government, the state, HUD, and, in some cases, the EZ governing organization.

Also, please note that HUD did endorse actions by at least one EZ to access a portion of the EZ/EC SSBG grant from its state before the Memorandum of Agreement was in place. For example, the Atlanta EZ made draws to cover administrative expenses several months before the MOA was complete.

See comment 3.

I) Page 19, final paragraph --

The text indicates that a HUD official noted that the Office of Community Planning and Development has recently received funding for a long-term evaluation.

It is our understanding that HUD is funding two separate evaluations of the EZ/EC program -- a short-term project by the Rockefeller Institute of Albany, New York, funded through the Office of Community Planning and

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Development; and a long-term evaluation by Abt and Associates, financed through the Office of Policy Development and Research.

See comment 3.

J) Page 21, first paragraph --

The text notes that your staff performed work at the HHS Office of Community Services.

A point of clarification may be in order. It is our understanding that, when preparing this report, your staff worked primarily with members of the HHS EZ/EC Support Team. While the HHS Team works closely with the Office of Community Services, it is, in fact, a separate entity from that office. From the time the Team was created in early 1995, it has not been affiliated with any single office within HHS. Rather, the Team is composed of people from different agencies within HHS and has reported to a working group of high level HHS officials which manages the Department's involvement in the EZ/EC program.

See comment 4.

K) Page 22 --

As of October 31, 1996, the State of Georgia had drawn down \$1,535,605 of EZ/EC SSBG funds for the Atlanta Zone.

See comment 4.

L) Page 24 --

As of October 31, 1996, the State of Maryland had drawn down \$2,095,500 of the EZ/EC SSBG funds for the Baltimore Zone.

See comment 4.

M) Page 26 --

As of November 6, 1996, the State of Illinois had drawn down \$269,100 of the EZ/EC SSBG funds for the Chicago Zone.

See comment 4.

N) Page 28 --

As of October 31, 1996, the State of Michigan had not drawn down any EZ/EC SSBG funds for the Detroit Zone.

See comment 3.

O) Page 32, final full sentence --

The report indicates that the allocation of funds between the Philadelphia and Camden was determined by agreement between the two Zones. This is

Appendix V
Comments From the Department of Health
and Human Services

Page 6 - Lawrence J. Dyckman

incorrect; the allocation was determined by a population-based formula included in OBRA '93.

P) Page 33 --

As of October 31, 1996, the Commonwealth of Pennsylvania had drawn down \$570,943 for the Philadelphia Zone.

As of October 31, 1996, the State of New Jersey has not drawn down any funds for the Camden Zone.

Thank you for giving us the opportunity to comment. Please do not hesitate to contact me or the HHS Team if you have further questions. The appropriate Team contacts are Marek Gootman 260-0399 and Jim Gatz 260-0397.

Sincerely,



Jack C. Ebeler
Acting Assistant Secretary for
Planning and Evaluation

See comment 4.

The following are GAO's comments on HHS' letter dated November 29, 1996.

GAO Comments

1. We agree that HHS is and has been an important partner in this program. Among other things, HHS has provided information to the EZs to clarify the uses of and controls on the EZ/EC SSBG funds, advised the EZs and ECS about other HHS grants that have been awarded or are available to the EZs, and worked with HUD and USDA in preparing guidance issued to the EZs. We added some information on HHS to the background section of the report.
2. Although the two segments of this zone operate autonomously for the most part, they are still a single EZ. Furthermore, the administration of this EZ was not significantly different from that of the New York EZ, which has split its operations between two corporations covering distinct parts of the designated zone. Consequently, we believe that discussing the two segments of the Philadelphia-Camden zone together is appropriate because they form a single, bistate zone.
3. We have revised or added wording to the report to make the changes, when appropriate. HHS also felt that the report should include additional background information about HHS' role in the program and raised a number of editorial and technical comments on the report. We changed the wording of the report, when appropriate, to address these comments.
4. We updated the report to include the amounts drawn down as of October 31, 1996. The amounts for Detroit and Chicago were provided by the EZ. A state official in Michigan verified that the drawdown had taken place and that the state had provided the funds to the EZ. They added that the amount would not yet show up on HHS' records because of the timing of the state's request for a drawdown. An HHS official told us that the process in Illinois was similar and that HHS had received a request for a drawdown in November 1996.

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