

GAO

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

November 1998

COMMUNITY DEVELOPMENT

Progress on Economic Development Activities Varies Among the Empowerment Zones





**United States
General Accounting Office
Washington, D.C. 20548**

**Resources, Community, and
Economic Development Division**

B-281310

November 25, 1998

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

Dear Mr. Chairman:

In August 1993, the Congress authorized the 10-year Empowerment Zone and Enterprise Community program to help selected distressed communities develop comprehensive approaches for dealing with their social and economic problems. In December 1994, over 100 communities were designated as federal empowerment zones and enterprise communities. These communities will receive about \$1 billion in federal grants, as well as tax benefits for certain businesses located in the communities.¹ In 1997, the Congress authorized the designation of 22 additional empowerment zones, 2 of which—Los Angeles and Cleveland—the administration has already designated. In addition, Members of the Congress have introduced legislative proposals to further extend this program or provide for similar programs.²

To learn how the program is working, you asked us to (1) examine the progress made by the federal empowerment zones in implementing the program, (2) describe the steps taken by the two responsible federal agencies—the Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA)—to monitor and evaluate the existing zones' progress, and (3) describe the status of steps to designate the second group of empowerment zones. This report focuses on six zones that we visited—three urban (Atlanta, Baltimore, and New York City) and three rural (the Rio Grande Valley, the Kentucky Highlands, and the Mississippi Mid-Delta) empowerment zones, all of which were designated in 1994. As agreed with your office, the report focuses on the empowerment zones' progress in implementing economic development activities.

¹Empowerment zones receive much larger grants and more tax incentives than enterprise communities and are the subject of this report.

²For example, see our report and testimonies on the American Community Renewal Act of 1998—GAO/RCED-98-158R and GAO/T-RCED-98-196, issued in May 1998, and GAO/T-RCED-98-263, issued in Aug. 1998.

Results in Brief

The six empowerment zones that we visited have reported on their implementation of a variety of planned activities in the areas of economic development, housing, public safety, health care, public transportation, education, and family self-sufficiency. While the mix of activities varies among the zones, economic development activities generally account for the largest portion of their planned expenditures. The six zones reported that they are making progress in implementing their economic development activities (creating jobs, training workers, and providing access to capital); however, the extent of their progress varies. Four of the zones—Baltimore, the Kentucky Highlands, New York, and the Rio Grande Valley—have initiated or completed many of their economic development activities. The two remaining zones—Atlanta and the Mississippi Mid-Delta—have established organizations, called one-stop capital shops, that provide comprehensive technical and financial assistance in a single location to small businesses. They have also provided several loans and one grant to businesses but have made little progress on other economic development activities. Officials involved in implementing the empowerment zone program told us that two factors facilitated their progress—experience in implementing activities and agreement among stakeholders.

Both HUD and USDA have sponsored studies of the empowerment zone program to help them monitor implementation efforts. In addition, both agencies use progress reports from the zones, together with visits by their own field office staff, to monitor the performance of the zones and evaluate their fitness to continue in the program. HUD required reports from the urban zones in the summers of 1996 and 1997, while USDA has generally required semiannual reports from the rural zones. Both agencies perform field reviews and site visits to check the accuracy of the progress reports. While field staff from both agencies said they provide assistance upon request, the extent of their involvement in monitoring and evaluation has varied. Specifically, HUD field staff told us they have not had a routine role in monitoring and evaluating the program. However, under HUD's management reform initiative, which is now being implemented, the field offices will have a greater role in assisting the zones and monitoring their activities. USDA involved its field office representatives in monitoring and evaluating the program by requiring the rural zones to submit weekly progress reports to field office representatives for their review.

Earlier this year, the Secretaries of Housing and Agriculture invited communities to apply for the 20 remaining empowerment zone designations. These zones will have fewer tax benefits and smaller grants

than the original zones. HUD and USDA subsequently issued regulations covering the program, provided guidance to potential applicants, and conducted informational workshops across the country. Both agencies are currently evaluating communities' applications for designation. Program officials from both agencies told us that they expect the designations to be made no later than January 1, 1999, the statutory deadline.

Background

The Congress established the Empowerment Zone (EZ) and Enterprise Community program in the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66, Aug. 10, 1993). The act also amended title XX of the Social Security Act to authorize the special use of Social Services Block Grant (SSBG) funds for the program.³ In addition, the act allows businesses located within the EZs to (1) receive tax credits on the wages paid to employees who live and work in the zones; (2) deduct higher levels of depreciation expenses than other businesses; and (3) borrow, at low interest rates, funds raised from the sale of tax-exempt bonds issued by the state or local government to be used for facilities and/or land. Finally, the act specifies that the Secretaries of Housing and Urban Development and Agriculture will designate the communities that are to participate in the program and have the authority to revoke a designation if the boundaries of an empowerment zone or enterprise community are modified, if a designated area is not complying with the program's requirements, or if a designated area is not making significant progress in implementing the program.

Communities that participate in the 10-year EZ program had to (1) meet specific criteria for characteristics such as geographic size and poverty rate and (2) prepare a strategic plan for implementing the 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.⁴ Each EZ must spend its SSBG funds in accordance with its strategic plan, which includes goals and measures, called performance benchmarks. The progress of each EZ in achieving its goals is to be based

³Historically, SSBG funds could be used only for social service activities, such as assisting and feeding children. However, under the EZ program, the funds can also be used for economic and social activities, such as purchasing or improving land and facilities or providing cash payments to individuals for medical care. The urban EZs received \$100 million each in SSBG funds, the rural EZs received \$40 million each, and the enterprise communities (both urban and rural) received approximately \$3 million each. These funds remain in the federal government until needed by the EZs.

⁴On Dec. 21, 1994, the Secretaries of Housing and Urban Development and Agriculture designated nine EZs—six urban and three rural—that would participate in this program.

on the extent to which it accomplishes its performance benchmarks, not on how much federal money it spends. The benchmarks are set forth in a benchmark document that describes the activities that the EZ plans to implement and includes time lines for their implementation. The document can be modified to accommodate changes in the EZ's needs or scheduling problems. The benchmark document is to serve the EZ, as well as HUD or USDA, as an important management tool and constitutes the primary basis for evaluating the progress being made.

HUD and USDA have each issued regulations and guidance for implementing the EZ program. In addition, they have commissioned studies to help them evaluate the program and have required the EZs to report on their progress in implementation. HUD requires the urban EZs to submit periodic progress reports to its EZ program office. The program office sends these reports to the HUD field offices for assessment. These reports were submitted in the summer of 1996 and the summer of 1997, and the next reports are due by December 31, 1998, according to the coordinator for the EZ program.⁵ USDA requires the rural EZs to submit weekly progress reports to the field offices and semiannual progress reports to the headquarters Office of Community Development, which is responsible for the rural program's overall implementation.⁶

Under the Taxpayer Relief Act of 1997 (P.L. 105-34), the Congress authorized a second round of EZs. This act provides for two urban EZs that are to operate under the same rules as the EZs authorized in 1993. In January 1998, the administration selected Los Angeles and Cleveland as the two new EZs.⁷ The act also provides for 20 new EZs—15 in urban areas and 5 in rural areas—that are to operate under slightly revised rules set forth in the act. Communities across the nation—including the existing enterprise communities and tribal areas—are eligible to apply for the new EZ designations.⁸ In October 1998, the Congress provided \$55 million for

⁵For more information on the initial implementation of this program in urban areas, see our earlier report entitled *Community Development: Status of Urban Empowerment Zones* (GAO/RCED-97-21, Dec. 20, 1996) and our testimony entitled *Community Development: The Federal Empowerment Zone and Enterprise Community Program* (GAO/T-RCED-98-27, Oct. 28, 1997).

⁶According to USDA officials, the frequency of their evaluation has increased in response to a GAO report that recommended improvements in obtaining information for assessing the progress of EZs. (See *Rural Development: New Approach to Empowering Communities Needs Refinement* (GAO/RCED-97-75, Mar. 31, 1997).)

⁷As specified in the Taxpayer Relief Act, the effective date for these two EZs is Jan. 1, 2000.

⁸The Omnibus Budget Reconciliation Act of 1993 did not allow communities from tribal areas to participate in the original program.

fiscal year 1999 for the 20 new EZs—\$45 million for the 15 new urban EZs and \$10 million for the 5 new rural EZs.⁹

Progress Varies in Implementing the Empowerment Zone Program

The six EZs that we visited—Atlanta, Baltimore, the Kentucky Highlands, the Mississippi Mid-Delta, New York City, and the Rio Grande Valley—have reported on their progress in implementing a variety of activities involving economic development, housing, public safety, health care, public transportation, education, and family self-sufficiency. For five of the six EZs, economic development activities (creating jobs, training workers, and providing access to capital) accounted for a larger portion of the planned first-phase expenditures than other activities. All six EZs reported that they are making progress in implementing their economic development activities; however, the extent of their progress varies. Generally, progress was greater in EZs where stakeholders had experience in implementation and could agree on their roles and responsibilities.

Planned Activities Vary Among Empowerment Zones

Each of the six EZs has reported to either HUD or USDA on its progress in implementing the first phase of its planned activities. The reports prepared by the EZs that we visited often emphasized economic development activities (creating jobs and training workers) but usually included activities in other areas, such as housing and public safety. For example, as table 1 shows, the activities in the New York and Kentucky Highlands EZs were classified almost exclusively as related to economic development, while those in the other EZs were classified as both related and not related to economic development. Whereas the New York and Kentucky Highlands EZs focused on creating jobs, developing businesses, training workers, and providing access to capital, the Atlanta, Baltimore, and Rio Grande Valley EZs included activities that provided health care, housing, public transportation, education, family self-sufficiency services, and services for the elderly. The Mississippi Mid-Delta EZ included activities such as community beautification, housing, health care, public safety, and infrastructure improvement; however, almost all of its initial SSBG allocation supported economic development activities. (See apps. I through VI for details on each EZ's activities as reported in 1997).

⁹P.L. 105-277 (Oct. 21, 1998). For more details see the Conference Report on H.R. 4328, Making Omnibus Consolidated and Emergency Supplemental Appropriations for Fiscal Year 1999, House Report 825 (Oct. 19, 1998). In this report, the Congress also authorized USDA to designate 20 new enterprise communities in rural areas and provided \$5 million for them.

Table 1: Activities Planned in Six EZs

EZ	Activities related to economic development	Activities not related to economic development	Total planned activities
Atlanta ^a	23	104	127
Baltimore	19	27	46
New York	38	2	40
Kentucky Highlands	20	8	28
Mississippi Mid-Delta	8	13	21
Rio Grande Valley	10	8	18
Total	118	162	280

^aA March 1998 status report provided by Atlanta EZ officials included 21 activities, of which 7 were related to economic development and 14 were not.

Source: EZs' progress reports to HUD and USDA from July through Sept. 1997.

Activities classified as related to economic development also generally accounted for a larger portion of the EZs' reported SSBG allocations than other activities. As table 2 shows, the EZs allocated from 31 to 97 percent of their grant funds for economic development activities.

Table 2: Allocations of SSBG Funds Reported by Six EZs

Dollars in millions			
EZ	SSBG funds allocated for economic development activities	Total SSBG funds allocated ^a	Percentage of funds allocated to economic development
Atlanta	\$13.6	\$43.5	31
Baltimore	\$39.8	\$59.7	67
New York ^b	\$9.7	\$10.0	97
Kentucky Highlands	\$27.8	\$40.0	70
Mississippi Mid-Delta	\$5.3	\$5.5	96
Rio Grande Valley	\$9.3	\$12.9	72
Total	\$105.5	\$171.6	61

^aThese amounts reflect the SSBG funds that each EZ planned to use for the first phase of its activities over the 10-year life of the program; therefore, the amount generally does not reflect the total amount available to each EZ.

^bThe federal SSBG amounts allocated by the New York EZ for each activity were matched by equal amounts from the city and the state.

Source: EZs' reports to HUD and USDA from July through Sept. 1997.

Progress in Implementing Economic Development Activities Also Varies

The six EZs reported that they are making progress in implementing their economic development activities. However, the extent of their progress varies. Four of the EZs—Baltimore, the Kentucky Highlands, New York, and the Rio Grande Valley—have reported that they have initiated or completed many of their economic development activities. The two remaining EZs—Atlanta and the Mississippi Mid-Delta—have established one-stop capital shops, which are designed to provide comprehensive technical and financial assistance in a single location to small businesses. They also have made several loans and one grant to businesses but have made little progress on other economic development activities.

In its performance review, the Baltimore EZ reported completing or initiating action on 17 of its 19 economic development activities. Officials from the EZ governing body confirmed this progress during our visit. Specifically, the officials said that, as of May 1998, they (1) had provided training that contributed to the placement of 100 residents in jobs, (2) had completed the privatization of neighborhood food markets that provide business opportunities within the zone, and (3) will continue their efforts to attract businesses and create or expand job opportunities. They also said that they had worked with Employ Baltimore—a city government employment development initiative—to place more than 1,100 of the zone’s residents in jobs throughout the city. Although the Baltimore EZ has begun to implement its system for getting zone residents into jobs, it is behind schedule largely because the establishment of a community-based structure for identifying potential community employees and offering career counseling, training, and placement services has taken longer than anticipated. The EZ has not yet established a community development bank, which, according to the EZ’s plans, will lend funds for business and residential development within the eastern side of the zone.¹⁰

The Kentucky Highlands EZ reported completing or initiating action on 18 of 20 economic development activities. During our visit, officials from the EZ said that the 1997 performance review generally reflected its progress. They noted that one loan fund had provided loans to businesses, resulting in the creation of 644 jobs as of March 31, 1998. Other activities that had been initiated included developing industrial parks, training workers for jobs in the manufacturing industry, and providing downtown revitalization loans to businesses. Of the two actions that had not been initiated, one was classified as uncertain and the other was found to be infeasible. Specifically, the EZ had not begun developing an airport that would accommodate larger airplanes because, according to EZ officials, funding

¹⁰This initiative was funded by the city and did not involve the use of SSBG funds.

was hard to obtain and a court ruling found that the airport's board was improperly organized. The EZ's efforts to establish a waste recycling plant were terminated after a feasibility study determined that there would not be enough waste available to make the plant cost-effective. Officials from the EZ said that the funds for this activity would be reallocated to other activities.

According to its 1997 performance review, the New York EZ has initiated action on 20 of its 38 economic development activities, including (1) establishing a business resource and service center, which, according to the report, has held 26 business seminars and facilitated 27 loans; (2) establishing a credit union for use by the zone's residents; and (3) revitalizing commercial facilities. Funding has been approved for the 18 activities on which action had not begun at the time the progress report was prepared. EZ officials told us that they had subsequently canceled their plans for an apprenticeship preparation program and had initiated actions on five other activities, including enrolling 233 residents in workforce preparation activities. The remaining economic development activities included efforts to increase tourism and expand workforce preparation initiatives.

The Rio Grande Valley EZ reported taking action on all 10 of its economic development activities. These activities included developing training for nursing assistants; training welders to work in the local manufacturing industry; and extending small loans, as part of a one-stop capital shop, to EZ residents to start small businesses. The EZ had also completed a facility, called a business incubator, for fostering new businesses within the zone by providing them with administrative support and work space at a minimal cost. At the time of our visit in March 1998, the Rio Grande EZ had planned 10 additional economic development activities, of which 6 were ongoing. All of the additional activities related to business development and workforce training.

Although the Atlanta EZ reported to HUD in its 1997 performance review that it had completed or begun implementing 22 of its 23 economic development activities, EZ officials gave us a March 1998 internal status report showing that action had begun on only 4 out of 7 economic development activities. Specifically, the status report showed that actions were initiated to set up a one-stop capital shop, establish a revolving loan fund, provide funds to develop employment strategies for women, and renovate a vacant building. The report also showed that actions had not yet been initiated to redevelop the Centennial Olympic Business Park,

establish another revolving loan fund, or market the EZ's tax credits. The differences in the progress reported in the 1997 performance review and in the 1998 status report are due to several factors. First, the performance review lists a revolving loan fund as one activity and individual loans issued from that fund as other, separate activities, while the status report lists all of these as a single activity. Similarly, the performance review lists a project related to vacant property and a specific entity that received funds under that project as separate activities, while the status report lists both as a single activity. The performance review also includes activities, such as reconstructing a sports arena and tracking job applicants, that were not included in the status report. In addition, the status report includes only activities that had been approved by the board at the time the report was issued. Finally, the performance review indicates that actions have been initiated on three activities for which the status report shows that no actions have been initiated. The acting executive director of the EZ at the time of our visit told us that he was not involved with the EZ when the performance review was prepared and, consequently, could not explain the differences.

The Mississippi Mid-Delta EZ reported starting five of eight economic development activities. For example, the EZ said it had initiated actions to attract and maintain jobs and to strengthen and maintain businesses and industries. The EZ board had approved three other activities—to promote and attract industrial and manufacturing jobs, to help businesses expand within the zone, and to expand and improve training programs for workers. At the time of our visit in April 1998, the EZ said it had added a one-stop capital shop to its list of activities. Officials noted that actions had been initiated on a total of seven activities—the five reported in 1997, the one-stop capital shop, and an activity to attract and maintain jobs at Dollar General Corporation. However, no action had been taken on the other two funded activities at the time of our visit.

**Experience and Agreement
Among Stakeholders
Promote Progress**

Officials involved in implementing the EZs told us that two factors facilitated their progress—obtaining agreement among stakeholders and experience in implementing similar economic development activities. For example, officials from the Kentucky Highlands and Rio Grande Valley EZs attributed much of their progress to their multilevel project approval processes, which were established early in the program. Their processes allowed stakeholders to participate at the local level as well as at the zonewide level. Once decisions were approved at the local level, they were then submitted for approval to a zonewide board. Members of this board

also made decisions on projects affecting the entire EZ. Conversely, disagreement among stakeholders delayed activities. For example, the New York EZ said that its progress was inhibited until its three major stakeholders (the federal, state, and city governments, each of which contributed \$100 million to the EZ) clarified their roles and responsibilities. The EZ has since made steady progress. Similarly, the Atlanta EZ has had difficulty implementing activities because of disagreements among the EZ advisory board, board of directors, and staff over their roles and responsibilities.¹¹ The Mississippi Mid-Delta EZ also ascribed delays to disagreements over the state government's role in making SSBG funds available to the EZ. In the absence of written operating policies and procedures, several disagreements have also arisen among this EZ's executive director, board members, and community representatives.

Another factor affecting the progress of the EZs was the extent to which their management organizations had prior experience in implementing similar activities. Officials from the Kentucky Highlands EZ said that the organization managing its EZ has existed for 26 years and had prior experience implementing economic development programs, such as those funded through the Department of Commerce's Economic Development Administration. Consequently, the people involved were knowledgeable about other federal, state, and local economic development programs and regulations. The Kentucky Highlands executive director attributed his EZ's progress in implementing the program to this experience. On the other hand, officials in the Baltimore EZ said that they had difficulty locating experienced organizations to implement career centers, which would identify residents' needs for jobs and provide training to those residents. EZ officials in New York also mentioned that it took longer than expected to involve residents in the implementation process because the residents lacked experience in evaluating proposals to implement projects.

Both HUD and USDA Monitor the Empowerment Zones' Progress

Both HUD and USDA said that they use progress reports from the EZs, together with visits by their own field office staff, to monitor the performance of the EZs and evaluate their fitness to continue in the EZ program. In addition, both agencies have sponsored studies, which were

¹¹At the time of our review, the Atlanta EZ was operating under an acting executive director. The former executive director's contract was not renewed and most of the EZ staff had been fired for lack of progress in implementing the EZ's projects and excessive administrative spending.

performed by organizations that were not involved in implementing the program, to help them monitor implementation efforts.¹²

HUD's coordinator for the EZ program told us that HUD uses the reports from the EZs to help monitor the progress that is being made. The reports are reviewed in headquarters and by field office representatives. For instance, in March 1997, HUD issued reports on each of the communities involved in the program and identified implementation problems at five locations, including one EZ—the Camden portion of the Philadelphia/Camden EZ. On the basis of subsequent reports, HUD determined that improvements were made in all five communities. The official added that HUD would consider revoking a designation, as allowed by the program's authorizing legislation, if progress was not being made.

HUD field staff said that although the EZ program is primarily run by HUD headquarters, they have provided assistance when asked by the EZs and have reviewed progress reports at the request of headquarters. HUD field and headquarters staff told us that under HUD's management reform initiative, the field offices will have an increased role in assisting the EZs and monitoring their activities. Specifically, the field offices will have (1) community builders, who will be responsible for assisting several HUD programs, including the EZ program, and (2) public trust officers, who will be responsible for monitoring HUD programs, including the EZ program. According to the EZ program's coordinator, training for the community builders is under way and training for the public trust officers is being developed. In addition, the EZ office in HUD headquarters plans to conduct its own training sessions on the EZ program for community builders and public trust officers.

According to USDA officials involved in implementing the EZ program, representatives from the Department's field offices conduct periodic site visits to rural EZs and are expected to attend EZ board or committee meetings, as well as keep abreast of the zones' progress in implementing the program. Accordingly, the cognizant USDA rural development field office staff member prepares a weekly report to the headquarters Office of Community Development outlining the EZ's overall performance. USDA officials told us that they have also brought in a technical expert when (1) they have identified a specific problem or (2) an EZ has requested technical assistance on a particular project. In addition, USDA plans to

¹²These reports were Building a Community Plan for Strategic Change: Findings From the First Round Assessment, Nelson A. Rockefeller Institute of Government, State University of New York (1996) and Rural Empowerment Zones/Enterprise Communities: Lessons From the Learning Initiative, Community Partnership Center, University of Tennessee (Feb. 1998).

conduct a comprehensive review of the EZ program about once every 3 years and/or when field office reports identify problems or show that a particular EZ is falling behind in its benchmarks. In May 1998, for example, USDA conducted such a review of the Mid-Delta Mississippi EZ to obtain an overall view of its performance. The review involved meeting with state officials, board members, and the executive director, as well as examining the EZ's files and planned activities. The results of this review were not available when we were conducting our work. Finally, USDA's Office of Community Development prepares weekly reports to the Under Secretary for Rural Development that include information on the EZs' progress and any changes or significant problems.

Efforts to Designate the Remaining Empowerment Zones Are Ongoing

In April 1998, HUD and USDA published notices inviting communities to apply for the new EZ designations by October 9, 1998. They also issued regulations covering the program. HUD and USDA have jointly prepared program and application guides and have each held workshops throughout the country for communities interested in applying for a designation. Specifically, HUD conducted 10 workshops nationwide between April and May 1998, while USDA conducted 14 workshops nationwide between May and June. Workshop topics included how to apply for the program, develop a strategic plan, develop a governance structure, design a performance management system, understand and market EZ tax incentives, develop programs and projects to promote business development, and use job training and job placement services to help residents get jobs.

In October 1998, the Congress provided \$45 million for the 15 new urban EZs (\$3 million for each one) and \$10 million for the 5 new rural EZs. USDA officials told us that they will allocate \$2 million to each new rural EZ.¹³ Both agencies are evaluating communities' applications for designation. HUD received about 120 applications, while USDA received 169 applications, of which 160 were complete. Program officials from both agencies told us that they expect the designations to be made no later than January 1, 1999, the statutory deadline.

Agency Comments

We provided a draft of this report to HUD and USDA for review and comment. In addition, we sent the relevant sections of the report to each EZ for its review.

¹³The Congress also authorized the designation of 20 new rural enterprise communities and provided a total of \$5 million for them. USDA officials said that they will allocate \$250,000 to each new rural enterprise community.

HUD generally agreed with the information in the report. However, HUD suggested that the report's title be revised to reflect its focus on economic development activities. We revised the title of the report as suggested. HUD also said that it planned to increase its monitoring of the EZs and to implement an Internet-based performance measurement system. HUD's comments are reproduced in appendix VII of this report.

USDA generally agreed with the information presented in the report and provided editorial and technical corrections, which we incorporated where appropriate.

In general, the EZs provided updated information or clarification on the status of their activities, which we incorporated where appropriate. In addition, the New York EZ provided current information on the funding of its projects. We did not incorporate this information because we did not receive similar information from the other EZs.

Scope and Methodology

To determine the progress that the Atlanta, Baltimore, New York, Kentucky Highlands, Mississippi Mid-Delta, and Rio Grande Valley EZs made in implementing their economic development activities and the causes for any delays, we reviewed documents prepared by the EZs, including memorandums of agreement, benchmark documents, and performance reports submitted to HUD and USDA. We did not review the accuracy of the information reported by the EZs in these reports; however, we did review HUD's and USDA's methods for ensuring the reports' accuracy.¹⁴ We also reviewed HUD's and USDA's field evaluations for all of the EZs visited, interviewed HUD and USDA headquarters officials and field staff, and reviewed reports from entities that were under contract with HUD and USDA to evaluate the EZ program. During our visits to the EZs, we interviewed their executive directors and toured locations where economic development activities were being implemented. In addition, we interviewed residents and business representatives in the Baltimore, New York, Kentucky Highlands, Mississippi Mid-Delta, and Rio Grande Valley EZs. We also attended meetings of the advisory board or board of directors in the Atlanta, Baltimore, Kentucky Highlands, and Rio Grande Valley EZs.

¹⁴HUD's Office of Inspector General recently issued reports on, among other things, the accuracy of reporting at EZs in four locations—Atlanta, Chicago, Detroit, and Philadelphia. These reports are Audit Report: City of Atlanta Empowerment Zone Program (98-CH-259-1005, Sept. 28, 1998), Audit Report: City of Chicago Empowerment Zone Program (99-CH-259-1002, Oct. 15, 1998), Audit Report: City of Detroit Empowerment Zone Program (99-CH-259-1003, Oct. 20, 1998), and Audit Report: City of Philadelphia Empowerment Zone Program (98-CH-259-1006, Sept. 30, 1998).

To determine monitoring and evaluation efforts, we interviewed HUD and USDA officials in headquarters and in the field offices we visited, reviewed reports prepared by field office staff, and reviewed training documents provided to HUD's community builders. To describe the efforts to implement the second round of EZs, we compared the 1993 legislation authorizing the first EZs to the 1997 legislation authorizing the new EZ designations. We also obtained and reviewed HUD and USDA documents on the new EZ designations. In addition, we reviewed other information relevant to the EZs, including the President's fiscal year 1999 budget request. We conducted our work from December 1997 through November 1998 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the appropriate congressional committees and to the Secretaries of Housing and Urban Development, Agriculture, and Health and Human Services. We will also make copies available to others on request.

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

Sincerely yours,



Stanley J. Czerwinski
Associate Director, Housing and
Community Development Issues

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Abbreviations

EZ	empowerment zone
HUD	Department of Housing and Urban Development
SSBG	Social Services Block Grant
USDA	U.S. Department of Agriculture

Status of Activities in the Atlanta Empowerment Zone

The Atlanta empowerment zone's (EZ) implementation process involves a sequence of steps that include proposing an activity, obtaining approval from the EZ board to proceed with that activity, obtaining approval for funding the activity from the appropriate local and state entities, initiating actions to implement the activity, and completing actions associated with the activity. These steps are referred to as "proposed," "board approved," "funding approved," "ongoing," and "completed," respectively. Table I.1 shows each planned economic development activity, its status as reported by the EZ in its 1997 performance review, and the amount of Social Services Block Grant (SSBG) funds allocated to the activity.¹⁵

A March 1998 status report provided by Atlanta EZ officials showed seven activities as planned and indicated that progress was ongoing for four of the activities—the vacant property strategy, the female power demonstration, the one-stop capital shop, and the Atlanta Empowerment Zone Corporation revolving loan fund. The EZ had not yet initiated action on the three remaining activities. (See note ^a in table I.1 for the activities that were included in the status report). The differences in the progress reported in the 1997 performance review and in the 1998 status report are due to several factors: (1) the performance review lists a revolving loan fund as one activity and individual loans issued from that fund as other, separate activities, while the status report lists all of these as a single activity; (2) the performance review lists a project related to vacant property and a specific entity that received funds under that project as separate activities, while the status report lists both as a single activity; (3) the performance review includes activities, such as reconstructing a sports arena and tracking job applicants, that are not included in the status report; (4) the status report includes only activities that had been approved by the board at the time the report was issued; and (5) the performance review indicates that actions have been initiated on three activities for which the status report shows that no actions have been initiated.¹⁶

¹⁵Under the EZ program, the Atlanta EZ received \$100 million in SSBG funds for use over the 10-year life of the program.

¹⁶The acting executive director of the EZ at the time of our visit told us that he was not involved with the EZ when the performance review was prepared and, consequently, could not explain the differences.

**Appendix I
Status of Activities in the Atlanta
Empowerment Zone**

Table I.1: Atlanta EZ's Economic Development Activities—Status and SSBG Allocation

Activity	Status	SSBG allocation
Marketing Business Incentives ^a —to market EZ business incentives to existing and prospective zone businesses	Ongoing	\$200,000
Vacant Property Strategy ^a —to identify and redevelop vacant EZ buildings	Ongoing	2,000,000
Old Fourth Ward Commercial Property Redevelopment—to redevelop a building located at 551 Ralph McGill Boulevard	Ongoing	^b
Manufactured Housing Study—to assess the use of manufactured housing in the zone	Ongoing	200,000
Female Power Demonstration ^a —to educate and empower female zone residents to move them toward self-sufficiency through employment	Completed	400,000
Atlanta One-Stop Capital Shop ^a —to provide comprehensive technical and financial assistance in a single location to the area's small businesses	Ongoing	1,016,000
Community Empowerment Advisory Board Revolving Loan Fund ^a —to provide loans of up to \$50,000 to home, community-based, and start-up businesses	Ongoing	2,100,000
Atlanta Empowerment Zone Corporation Revolving Loan Fund ^a —to provide loans in excess of \$50,000 to businesses that locate or expand in the zone	Ongoing	2,400,000
Autocraft Body and Paint Shop—to renovate and expand a business in its current location	Ongoing	^c
Corporate Courier—to finance businesses that expand in or relocate to the zone	Ongoing	^c
Creative Fine Arts—to finance businesses that expand in or relocate to the zone	Ongoing	^c
Fulton Cotton Bag Mill—to renovate a vacant property for commercial, retail, and residential use	Ongoing	^c
Miss Piggy's Southern Cuisine—to create a new business in the zone	Ongoing	^c
Sweet Auburn Curb Market—to renovate an historic food market	Ongoing	^c
Leveraged Loan Fund—to provide loans to existing small businesses that have little or no collateral and are service-oriented	Proposed	200,000
Job Training—to provide training	Ongoing	0
Job Training-Career Day—to provide job information and solicit job interests	Completed	0
Job Training-Computer Jobs Bank—to identify all jobs available in the state of Georgia	Ongoing	0
Job Training-Renewal Atlanta—to recruit, train, and track applicants for jobs in EZ businesses	Ongoing	85,000
Atlanta Hawks/Atlanta Thrashers Arena—to reconstruct a sports arena	Ongoing	0
Centennial Olympic Park Area Business Park ^a —to redevelop a 1-million-square-foot office park	Ongoing	5,000,000
MLK and Ashby Shopping Center—to develop vacant land into a shopping center	Ongoing	0
Turner Field—to renovate the Olympic stadium for use as a baseball field	Completed	0
Total		\$13,601,000

(Table notes on next page)

**Appendix I
Status of Activities in the Atlanta
Empowerment Zone**

^aThese seven activities were included in the Mar. 1998 status report provided by Atlanta EZ officials.

^bThis activity, which is part of the Vacant Property Strategy, is listed as a separate activity in the Atlanta EZ's 1997 performance review but has no additional funds associated with it.

^cThis activity, which is part of the Atlanta Empowerment Zone Corporation Revolving Loan Fund, is listed as a separate activity in the Atlanta EZ's 1997 performance review but has no additional funds associated with it.

Source: Atlanta EZ's 1997 performance review.

Table I.2 lists categories that include the Atlanta EZ's planned activities that are not related to economic development and shows the amount of SSBG funds allocated to each category. Each category contains multiple planned activities.

Table I.2: Other Categories of Activities and Their SSBG Allocation

Category	SSBG allocation
Creating safe and livable communities	\$4,514,300
Lifting youth and families out of poverty	5,173,999
Providing adequate housing for all	18,000,000
Governance	2,248,000
Total	\$29,936,299

Source: Atlanta EZ's 1997 performance review.

Status of Activities in the Baltimore Empowerment Zone

The Baltimore EZ's implementation process involves a sequence of steps that include researching and reviewing the activities in the EZ's original application to develop the program's design and obtain review and input from an advisory council whose members represent the EZ's various constituencies, obtaining approval from the EZ board to proceed with an activity, presenting that activity to the state and federal governments for review and acceptance, initiating actions to implement the activity, and completing actions associated with the activity. These steps are referred to as "proposed," "board approved," "state and federal government approved," "ongoing," and "completed," respectively. Table II.1 shows each planned economic development activity, its status as reported by the EZ in 1997, and the amount of SSBG funds allocated to the activity.¹⁷

¹⁷Under the EZ program, the Baltimore EZ received \$100 million in SSBG funds for use over the 10-year life of the program.

**Appendix II
Status of Activities in the Baltimore
Empowerment Zone**

Table II.1: Baltimore EZ's Economic Development Activities—Status and SSBG Allocation

Activity	Status	SSBG allocation
Business Empowerment Center—to provide businesses with assistance and access to capital	Ongoing	\$4,200,000
High-Risk Capital Loan Fund—to provide gap financing for small businesses to obtain capital from traditional lenders	Ongoing	1,000,000
Zone Spin-Off Business—to create spin-off businesses on the supplier network for health care industries in the zone	Ongoing	250,000
Fairfield Ecological Park—to convert brownfield land into an industrial park	Ongoing	863,600
State Enterprise Zone Development—to provide additional incentives to locate in the zone	Completed	0
Carroll Park Industrial Area Business—to improve infrastructure needed for businesses to strengthen and grow	Ongoing	250,000
Finance Vehicle—to provide incentive financing to stimulate job creation	Ongoing	2,500,000
Brownfield Loans and Grants—to provide incentive financing and grants to revitalize brownfield land in the zone	Ongoing	3,000,000
Neighborhood Food Market Privatization—to privatize four public markets	Completed	0
Neighborhood Commercial Revitalization—to stabilize and expand employment in commercial areas	Ongoing	750,000
Community Development Bank—to lend money to businesses and for residential development	Board approved	0
Village Center Employment and Training—to design a career center model to meet residents' job needs	Ongoing	15,350,000
Family Support Strategy—to assist in developing activities that support workforce participation	Ongoing	1,102,000
Primary and Preventive Health—to provide health screening for residents prior to training or employment	Board approved	3,050,000
Substance Abuse Strategy—to assist addicted persons in participating in the workforce	Ongoing	5,045,115
Reverse Commuting—to provide transportation to connect EZ residents with jobs in the suburbs	Ongoing	1,000,000
Employ Baltimore Zone Advisor—to increase linkages between zone businesses and zone residents in order to increase the residents' participation in the workforce	Ongoing	0
Business Skills Advisory Group—to focus on the workforce needs of businesses	Ongoing	0
Child Care—to support workforce participation by providing resources for child care	Ongoing	1,400,000
Total		\$39,760,715

Source: Baltimore EZ's 1997 performance review.

The Baltimore EZ also had planned activities related to improving the quality of life and building community capacity that were allocated \$12,423,800 and \$7,500,000 in SSBG funds, respectively.

Status of Activities in the New York Empowerment Zone

The New York EZ's implementation process involves a sequence of steps that include proposing an activity, obtaining approval from the EZ board to proceed with that activity, obtaining approval for funding the activity from the appropriate local and state entities, initiating actions to implement the activity, and completing actions associated with the activity. These steps are referred to as "proposed," "board approved," "funding approved," "ongoing," and "completed," respectively. Table III.1 shows each planned economic development activity, its status as reported by the EZ in 1997, and the amount of SSBG funds allocated to the activity.¹⁸

Table III.1: New York EZ's Economic Development Activities—Status and SSBG Allocation

Activity	Status	SSBG allocation
Neighborhood Trust Federal Credit Union—to create a credit union in the area	Ongoing	\$98,750
Harlem USA Operating Company—to build a retail and entertainment center	Ongoing	3,733,333
Minton's Playhouse and Restaurant—to renovate and reopen this restaurant and jazz club	Board approved	116,666
Isabella Geriatric Center Nursing Assistant Training—to expose students to health care careers through a school-to-work program	Ongoing	20,000
Washington Heights/Inwood Development Corporation—to provide capital to small business owners and entrepreneurs	Ongoing	75,000
Business Resource and Investment Service Center—to establish a one-stop capital shop and technical assistance center	Ongoing	564,402
Black United Fund of New York—to offer copying, computer, and communications services to individuals and businesses	Ongoing	33,333
Broadway Video Incorporated—to expand the company's duplication services division by developing a mass video production facility	Board approved	146,313
Alexander Doll Company—to provide training and factory renovation	Board approved	533,334
East Harlem Microloan Program—to market small business loans to local businesses that do not qualify for traditional loans	Board approved	83,333
Institute for Youth Entrepreneurship—to expose youth to entrepreneurial career paths	Ongoing	41,667
The Studio Museum in Harlem Store—to expand the museum store's capacity to increase revenues from tourism	Funding approved	50,000
Small Business Assistance Initiative—to help businesses construct and maintain proper financial records	Board approved	583,333
Central Harlem Commercial Revitalization Program—to provide technical assistance for EZ businesses	Ongoing	250,000
East Harlem Commercial Revitalization Program—to provide technical assistance for EZ businesses	Ongoing	250,000
Washington Heights/Inwood Commercial Revitalization Program—to provide technical assistance for EZ businesses	Ongoing	250,000
Washington Heights Business Improvement District Management Association—to provide technical assistance for EZ businesses	Ongoing	41,666

(continued)

¹⁸Under the EZ program, the New York EZ received \$100 million in SSBG funds for use over the 10-year life of the program.

**Appendix III
Status of Activities in the New York
Empowerment Zone**

Activity	Status	SSBG allocation
Julia de Burgos Latino Cultural Center Feasibility Study—to develop a plan for local art and cultural groups to get tenants for and manage a vacant building	Ongoing	41,666
Masjid Malcolm Shabazz 116th Street Anchor/Retail—to provide assistance to vendors selling at a local marketplace	Ongoing	100,000
Boys Harbor Incorporated—to develop a collection of rare photos, videos, recordings, literature, and oral histories related to Latin music	Board approved	41,667
Community Family Planning Center—to acquire, renovate, and convert an abandoned firehouse into a health care facility	Ongoing	76,796
East Harlem Neighborhood-Based Alliance Corporation—to introduce EZ youth to health care careers through internships	Ongoing	20,000
Community Court Feasibility and Development Study—to study the feasibility of a decentralized court that will immediately sentence convicted wrongdoers who have not committed felonies and attempt to reintegrate them into neighborhood life	Ongoing	36,666
Beacon School Community Partnership—to expand computer literacy training to youth	Ongoing	266,666
Virtual Y—to increase reading scores through an after-school program	Ongoing	190,000
Harlem Technology Center—to expand computer literacy training to youth and community residents	Funding approved	44,315
Baked in the Hood—to create a professional kitchen that will permit production to meet demand for baked goods and increase workers' readiness for permanent jobs	Funding approved	78,000
Harlem Hospital and Columbia University Dental Training Program—to provide high-quality training for certified dental assistants	Funding approved	83,333
135th Street Gatehouse Project—to expand performance and rehearsal space for local performing arts groups	Funding approved	166,666
The Valley Incorporated Summer Youth Employment—to provide youth with summer internships and employment	Ongoing	8,333
University Consortium Technical Assistance Pilot—to provide technical assistance for EZ residents, organizations, and businesses	Ongoing	50,000
Welfare-to-Work Initiatives—to enroll at least 200 public assistance recipients in welfare-to-work-programs	Funding approved	380,000
Training for Growing Sectors of the Zone and Regional Economy—to equip EZ residents with skills and training and help them obtain jobs in growth industries	Funding approved	666,668
Entrepreneurial Training Programs—to create and enhance entrepreneurial activities	Funding approved	195,834
Basic Literacy Programs—to enroll at least 24 EZ residents in basic literacy programs	Funding approved	56,668
Apprenticeship Preparation Program—to establish or expand youth apprenticeship programs	Funding approved	60,000
English as a Second Language Program—to enroll at least 195 EZ residents in the program	Funding approved	141,668
General Equivalency Diploma Program—to enroll at least 900 EZ residents in the program	Funding approved	113,336
Total		\$9,689,412

Source: 1997 performance reviews from the Bronx Overall Economic Development Corporation and the Upper Manhattan Empowerment Zone Development Corporation.

The New York EZ also had planned activities related to child care that were allocated \$333,334 in SSBG funds.

Status of Activities in the Kentucky Highlands Empowerment Zone

The Kentucky Highlands EZ's implementation process involves a sequence of steps that include proposing an activity, obtaining approval from the EZ board to proceed with that activity, obtaining approval for funding the activity from the appropriate local and state entities, initiating actions to implement the activity, and completing actions associated with the activity. These steps are referred to as "proposed," "board approved," "funding approved," "ongoing," and "completed," respectively. Table IV.1 shows each planned economic development activity, its status as reported by the EZ in 1997, and the amount of SSBG funds allocated to the activity.¹⁹

¹⁹Under the EZ program, the Kentucky Highlands EZ received \$40 million in SSBG funds for use over the 10-year life of the program.

**Appendix IV
Status of Activities in the Kentucky
Highlands Empowerment Zone**

Table IV.1: Kentucky Highlands EZ's Economic Development Activities—Status and SSBG Allocation

Activity	Status	SSBG allocation
Developmental Venture Fund—to establish and manage a developmental venture fund for new and expanding businesses	Ongoing	\$11,000,000
Clinton County Industrial Park—to develop an industrial park	Ongoing	1,000,000
Wayne County Industrial Park—to develop an industrial park	Ongoing	1,000,000
Jackson County Specification Building—to construct an industrial specification and make infrastructure improvements	Complete	1,000,000
Crop Loan Fund—to establish an alternative crop loan fund for growers in the zone	Ongoing	300,000
Production Loan Fund—to provide an operating line of credit for farmers in the zone	Ongoing	1,000,000
Mountain Venture Loan Fund—to recapitalize a small business investment corporation to provide financing for businesses in the zone	Ongoing	2,000,000
Training Program-Rehabilitation Workshop—to establish a workshop in each area to raise the production and skills of workers	Ongoing	1,300,000
Entrepreneurial Training—to establish semi-annual entrepreneurial training courses in Jackson County	Ongoing	700,000
Training/Recreation—to construct and operate a training and postsecondary education facility	Ongoing	2,500,000
Clinton County Revolving Loan Fund—to establish and manage a revolving loan fund for economic/community development purposes	Ongoing	1,000,000
Wayne County Revolving Loan Fund—to establish and manage a revolving loan fund for economic/community development purposes	Ongoing	150,000
Home Keyer Program—to establish and manage a revolving loan fund for economic/community development purposes	Ongoing	400,000
Albany Downtown Revitalization—to develop and implement a downtown revitalization program	Funding approved	500,000
McKee Downtown Revitalization—to develop and implement a downtown revitalization program	Ongoing	250,000
Annville Downtown Revitalization—to develop and implement a downtown revitalization program	Ongoing	250,000
Airport Project—to develop a transport-class airport with a 5,500-foot runway to serve the zone	Proposed	475,000
Clinton County Water System Expansion—to upgrade water delivery systems for residents and businesses	Ongoing	500,000
Wayne County Water System—to upgrade water delivery systems for residents and businesses	Completed	500,000
Recycling Project—to determine the feasibility of and develop a multicounty recycling facility	Terminated	2,000,000
Total		\$27,825,000

Source: Kentucky Highlands EZ's Sept. 1997 accountability assessment.

The Kentucky Highlands EZ also had planned activities related to community development and project administration that were allocated \$7,825,000 and \$4,350,000 in SSBG funds, respectively.

Status of Activities in the Mississippi Mid-Delta Empowerment Zone

The Mississippi Mid-Delta EZ's implementation process involves a sequence of steps that include proposing an activity, obtaining approval from the EZ board to proceed with that activity, obtaining approval for funding the activity from the appropriate local and state entities, initiating actions to implement the activity, and completing actions associated with the activity. These steps are referred to as "proposed," "board approved," "funding approved," "ongoing," and "completed," respectively. Table V.1 shows each planned economic development activity, its status as reported by the EZ in 1997, and the amount of SSBG funds allocated to the activity.²⁰

Table V.1: Mississippi Mid-Delta EZ's Economic Development Activities—Status and SSBG Allocation

Activity	Status	SSBG allocation
Viking Range—to attract and maintain industrial jobs	Ongoing	\$0
Leading Edge Aircraft Painting—to attract and maintain industrial jobs	Ongoing	0
Dollar General Corporation—to attract and maintain industrial jobs	Board approved	900,000
Wolverine Tube—to strengthen existing businesses and industries	Board approved	427,000
Sporting World—to strengthen existing businesses and industries	Ongoing	0
Southern Fasteners—to strengthen existing businesses and industries	Ongoing	0
Manufacturing and Technology Center—to expand and improve workforce training programs	Board approved	4,000,000
A. Philip Randolph Educational Fund—to strengthen existing businesses and industries	Ongoing	0
Total		\$5,327,000

Source: Mississippi Mid-Delta EZ's Sept. 1997 accountability assessment.

Table V.2 lists categories that include the Mississippi Mid-Delta EZ's planned activities that are not related to economic development and shows the amount of SSBG funds allocated to each category. Each category contains multiple planned activities.

²⁰Under the EZ program, the Mississippi Mid-Delta EZ received \$40 million in SSBG funds for use over the 10-year life of the program.

**Appendix V
Status of Activities in the Mississippi
Mid-Delta Empowerment Zone**

**Table V.2: Other Categories of
Activities and Their SSBG Allocation**

Category	SSBG allocation
Promote community beautification	\$2,500
Improve the availability of housing	220,000
Improve the quality and accessibility of health care	0
Improve public safety	0
Improve drug prevention efforts	0
Improve existing infrastructure	0
Total	\$222,500

Source: Mississippi Mid-Delta EZ's Sept. 1997 accountability assessment.

Status of Activities in the Rio Grande Valley Empowerment Zone

For the Rio Grande Valley EZ, table VI.1 shows each planned economic development activity, its status as reported by the EZ in 1997, and the amount of SSBG funds allocated to the activity.²¹ The status was reported as “ongoing” if actions had been initiated beyond obtaining approvals and funding for the activity.

Table VI.1: Rio Grande Valley EZ’s Economic Development Activities—Status and SSBG Allocation

Activity	Status	SSBG allocation
One-Stop Capital Shop—to provide concentrated technical assistance and counseling to individuals and businesses in the zone	Ongoing	\$1,200,000
Enterprise Center—to create a small business incubator	Ongoing	750,000
Historical Preservation and Redevelopment—to improve the quality of the community to attract people and businesses to Port Isabel	Ongoing	763,100
Community Investment Fund-Starr County—to implement a revolving loan fund in Starr County	Ongoing	400,000
Community Investment Fund-Willacy County—to implement a revolving loan fund in Willacy County	Ongoing	625,000
Community Investment Fund-Hidalgo County—to implement a revolving loan fund in Hidalgo County	Ongoing	2,000,000
High Skills Training—to test new labor market strategies to reconnect low-income unemployed individuals with quality jobs	Ongoing	1,500,000
Demand-Driven Job Training—to provide job training in the Cameron County subzone	Ongoing	679,000
College and University Center—to develop an education and training center	Ongoing	1,108,385
Community Empowerment Center—to provide a literacy instruction program that will meet the needs of preliterate adults to continue their education and learn marketable skills	Ongoing	310,194
Total		\$9,335,679

Source: Rio Grande Valley EZ’s Sept. 1997 accountability assessment.

Table VI.2 lists categories that include the Rio Grande Valley EZ’s planned activities that are not related to economic development and shows the amount of SSBG funds allocated to each category. Each category contains multiple planned activities.

²¹Under the EZ program, the Rio Grande Valley EZ received \$40 million in SSBG funds for use over the 10-year life of the program.

**Appendix VI
Status of Activities in the Rio Grande Valley
Empowerment Zone**

**Table VI.2: Other Categories of
Activities and Their SSBG Allocation**

Category	SSBG allocation
Health care	\$800,000
Housing	250,000
Youth and education	806,424
Public safety	75,620
Infrastructure and community facilities	1,635,000
Total	\$3,567,044

Source: Rio Grande Valley EZ's Sept. 1997 accountability assessment.

Comments From the Department of Housing and Urban Development



U.S. Department of Housing and Urban Development
Washington, D.C. 20410-7000

OFFICE OF ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

November 13, 1998

Mr. Stanley J. Czerwinski
Associate Director
Housing and Community Development Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Czerwinski:

As the statutory "manager" for the urban portion of the Empowerment Zone/Enterprise Community Initiative (EZ/EC Initiative) we are thankful for the opportunity to comment on your draft report entitled, "Community Development: Progress Varies Among the Empowerment Zones."

Congressman Christopher Shays, Chairman, Subcommittee on Human Resources, Committee on Government Reform and Oversight, U.S. House of Representatives, asked the U.S. General Accounting Office (GAO) to examine the progress made by the Federal empowerment zones in implementing economic development activities. The GAO chose to review the economic development activities of the urban EZs in Atlanta, Baltimore and New York City. In general, the Department finds the GAO draft report to be a useful and accurate description of the economic development activities of the three urban empowerment zones evaluated.

Background: There are currently seventy-two urban Empowerment Zones and Enterprise Communities (EZ/ECs) and nine are currently designated as EZs (Atlanta, Baltimore, Chicago, Cleveland, Detroit, Los Angeles, New York, Philadelphia/Camden and Washington, D.C.). The EZ/ECs are required to submit an annual report to HUD detailing the progress they have made in implementing their strategic plans. Based on their progress reports, a HUD field office assessment and other information, the HUD EZ/EC Office periodically evaluates the performance of the EZ/ECs. In March, 1997, Secretary Cuomo announced that sixty-seven of the seventy-two urban EZ/ECs were making adequate progress in implementing their strategic plans. Since that announcement, the five EZ/ECs that were having difficulty in implementing their strategic plans have progressed significantly and are no longer in jeopardy of losing their

Appendix VII
Comments From the Department of Housing
and Urban Development

designation. HUD is planning to make its next EZ/EC progress determination in early 1999.

Producing Outstanding Results: The EZ/EC Initiative has produced outstanding results. Distressed neighborhoods which had experienced decades of decline are on the road to recovery. Thousands of new jobs are being created and retained for EZ/EC residents. The private sector has played a vital role in EZ/EC revitalization efforts as countless corporations across the nation have hired zone residents, actively participated in EZ/EC governance mechanisms and they have contributed their funds and staff to make local revitalization efforts a reality.

The EZ/EC Initiative has improved business access to the lifeblood of commerce – cheap sources of capital and a well-trained workforce. The EZ/EC Initiative has created new community development banks, one-stop capital shops, entrepreneurial development programs and provided technical assistance to businesses so they can grow and flourish. Tens of thousands of EZ/EC residents have received job training and they now have the opportunity to enter the workforce or upgrade their job skills. Entrepreneurial opportunities have increased as EZ/EC residents are participating in management and financial training sessions and other technical assistance so they can start or expand their own businesses.

Thousands of affordable housing units are being built and rehabilitated, providing hard working residents and those less fortunate with unprecedented opportunities to live in their neighborhood of choice. Public safety and crime prevention efforts have shown results as new police persons have been hired and new community policing initiatives are helping to return the streets to EZ/EC families. Thousands of residents have received technical assistance to make them better community leaders which will help sustain the EZ/EC revitalization efforts long after the money stops flowing.

City, County and State governments have come together to support EZ/EC strategic plan implementation through grants and technical assistance. A number of universities have played a key role in local EZ/EC revitalization efforts by providing leadership training for EZ/EC residents and capacity building for local non-profits. Organizations in the non-profit sector have played a key role because they are responsible for implementing some of the most creative and innovative programs and projects which give EZ/EC residents a chance to better their lives and the lives of their children.

Other EZ/EC projects and programs have improved the environment, provided greater access to health care, day care, education, recreational and cultural opportunities, and even helped to beautify blighted neighborhoods. Through the leadership of Vice President Gore, hundreds of schools are participating in arguably this decade's most exciting development – the Information Superhighway. Youths in the EZ/ECs will not be left behind by the technology gap often so prevalent in poor inner city neighborhoods. Access to the latest technology will ensure they have a brighter future.

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Report Title: The GAO accurately describes the overall empowerment zone activities of the three zones to include economic development, housing, public safety, health care, public transportation, education and family self-sufficiency. While the main focus of the draft report is to identify progress made solely on economic development activities, the title of the GAO draft report, "Community Development: Progress Varies Among the Empowerment Zones." is misleading given the far narrower focus of the report.

The GAO did not evaluate the progress made on all EZ activities, instead the GAO evaluated progress on those activities defined as "economic development activities." The title of the report tends to overstate the work GAO performed. HUD believes a more accurate title would be "Community Development: Progress on Economic Development Activities Varies Among the Empowerment Zones."

HUD 2020 Management Reforms: The GAO accurately reported that under HUD's 2020 Management Reforms, which are now being implemented throughout the Department, the field office Public Trust Officers (PTOs) will have a greater role in monitoring the progress of the EZ/ECs. To elaborate, the PTOs will have responsibility for ongoing monitoring of the activities of the urban EZ/ECs including on-site verification of progress reported by the EZ/ECs. The PTO's will also continue to complete a periodic progress assessment for each EZ/EC. The PTO's will report the results of their monitoring and evaluation activities to the HUD headquarters EZ/EC Initiative Office as is currently the practice.

Under the auspices of the HUD 2020 Management Reforms, a new Community Builder (CB) will be assigned to assist each of the urban EZ/ECs in implementing their strategic plans. The responsibilities of the EZ/EC Community Builders will include helping to identify and deliver technical assistance and helping EZ/ECs access additional resources. The EZ/EC CB's will report their EZ/EC-related activities to the Secretary's Representatives and to the EZ/EC Initiative Office at HUD headquarters. Together, the Public Trust Officers and Community Builders will provide a broad array of local services that will enable each EZ/EC to better implement visible, measurable change in distressed communities.

Performance Measurement System Upgrade: The GAO report accurately states that, "The progress of each EZ/EC in achieving its goals is based upon the extent to which it accomplishes its performance benchmarks, not on how much federal money it spends." In its past report on the EZ/EC Initiative, the GAO lauded HUD's efforts in "... taking commendable steps toward establishing results-oriented measures for the EZ program." (see "Community Development: Status of Urban Empowerment Zones." - GAO/RCED-97-21, December 1996). The current report accurately depicts HUD's former system for evaluating the progress being made by each EZ/EC. HUD is proud of its efforts to ensure that the EZ/EC Initiative measures results and is currently in the process of upgrading its performance measurement system to make it even more responsive to all levels of stakeholders interested in the results produced by this important Initiative.

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HUD's new EZ/EC Performance Measurement System is a cutting-edge, Internet-based system that will reduce EZ/EC reporting burdens, lower compliance costs, enrich EZ/EC reporting, increase public oversight and research capability, and improve the communication of EZ/EC results. HUD is currently using seven regional training sessions to make sure that the seventy-two EZ/ECs are proficient on the new system. HUD also offers a phone "hotline" and an on-line "user-guide" to help the EZ/ECs learn the new system. Also, a satellite broadcast on the new system is scheduled for December, 1998.

Below are some of the highlights of the new Internet-based EZ/EC performance measurement system.

- EZ/EC projects and programs are now categorized according to the four key principles of the EZ/EC Initiative: Strategic Vision for Change, Community-based Partnerships, Economic Opportunity, and Sustainable Community Development. This will enable HUD to report project and program results according to each of the principles and this capability directly addresses the GAO's recommendation to ensure the results of the Initiative are captured by the key principles of the Initiative.
- "Implementation Plans" have replaced performance benchmarks as the data capture instrument by which EZ/ECs report progress on each project or program they are implementing. The information provided by each EZ/EC in the new Implementation Plans will enable HUD and the EZ/ECs to describe proposed outcomes based on the EZ/EC Initiative's key principles, and the information will help to indicate how the outputs anticipated from an individual project or program will help to achieve the proposed outcomes (see GAO's recommendation contained in its report entitled, "Community Development: Status of Urban Empowerment Zones" - GAO/RCED-97-21, December 1996).
- With the advice of the seventy-two EZ/ECs, HUD has standardized program/project outputs. This will improve reporting consistency which will provide an improved basis for analyzing program and project results on a local, state, regional and national level.
- The new Internet-based system will permit EZ/ECs to submit their annual performance reports electronically and it will enable the EZ/ECs to maintain their projects and programs in real-time. In addition, the EZ/EC reports will be available over the Internet through the EZ/EC HomePage which is contained in HUD's award-winning World Wide Web site (WWW.HUD.GOV). This will enable EZ/EC residents, academics, government agencies and the public-at-large to track the progress being made by each EZ/EC. The new system also has a built in search engine that will permit anyone to query projects and programs on a local, state, regional or national basis enhancing research capability and accountability.

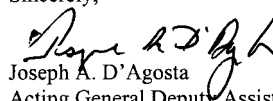
Round II Funding: The Taxpayer Relief Act of 1997 authorized the Secretary of HUD to designate 15 new empowerment zones by January 1, 1999. The FY 1999 budget approved by Congress in October, 1998, provided \$45 million in HUD funds (\$3 million for each of the 15 new EZs) for the first year of this of this ten-year initiative. The Clinton/Gore Administration will continue to pursue full funding for the new EZs and will its request for full funding in the FY 2000 budget that is sent to Congress. HUD is

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currently evaluating the 119 applications it received for Round II designation, and will make the 15 new designations by January 1, 1999.

Again, thank you for the opportunity to respond to your report. HUD appreciates your work and looks forward to assisting GAO with any further inquiries.

Sincerely,



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