INTERNAL WHITE HOUSE USE ONLY
Empowerment Zone Legislative Status
June 30, 1998

I. STATUS OF ROUND II COMPETITION

The application process for the Round II Empowerment Zone program is going very well. Hundreds of communities attended 25 workshops held by HUD and USDA and intend to submit strategic plans for EZ designation. We expect approximately 750-1200 attendees at the White House Community Empowerment Conference this July 14-16th..

II. STATUS OF EZ LEGISLATION

- Congressman Rangel and Senator Braun introduced the Administration's EZ Legislation for 20 new Empowerment Zones.
- Our legislation is moving slowly; and does not have significant support because it is seen to have only 20 winners, **15 urban and 5 rural EZ designations.**
- **Alternative Rural EZ/EC** Legislation is being formulated by Senator Jeffords and by Congressmen Hinchey and Watkins.
- The Alternative Rural legislation would be funded by reducing the amount of funding for newly designated Empowerment Zones.

This "Alternative EZ Legislation" could include the following proposals:

- **Creation of additional Rural grants or EC's:** This legislation would bring on a significant number of Rural southern and western congressmen who support economic development and represent Indian Tribes; but are concerned that 5 EZ designations are not enough for the needs of their constituents.
    - The Administration's original 1997 legislative proposal called for 80 Enterprise Communities, (50 urban and 30 rural); but they were never authorized;
    - The 20 new EZ's must be designated by December 31, 1999; the Administration's legislation seeks full funding for these zones at $100 million for urban and $40 million for rural;
    - In order to create new EC's, the Tax Code would have to be amended to provide designating authority and additional tax incentives for EC's;
    - An alternative option would create rural "Enhanced Champion Communities" to receive grant funds to carry out their strategic plans.

- **Preference for well performing EC's:** This provision would reward well performing EC's by providing a preference for the current competition for Empowerment Zones. Senator's Robb, Warner and Jefford's are pushing for this language because Burlington and Norfolk are well performing EC's.

- **Discretionary Funding for Current EC's:** This provision would allow the current 90 EC's to compete for additional funding to support the 10 year life of their strategic plans. Cities like Wilmington, DE, in Senator Roth's District, do not want to apply for EZ status; but would eligible for this pool of discretionary funding.

III. STATUS OF EZ FUNDING

- While the President's budget did not list a specific offset for the EZ proposal, the FHA mortgage limit increase was listed as mandatory item rather than part of our discretionary request;

- Conversations with Michael Deich at OMB have indicated that the Administration should be able to identify an offset to fund EZ's.

IV. STATUS OF LEGISLATIVE OUTLOOK

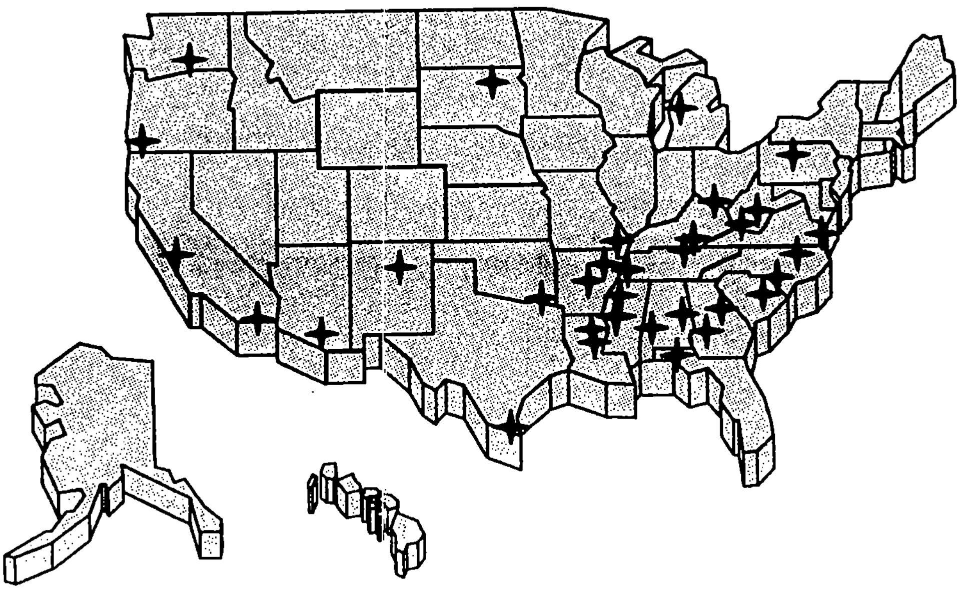
- A Tax Extender Bill is likely to pass through the Senate Finance and House Ways and Means committee's this session;

- Compromise proposals and language are under review by HUD, USDA and the CEB;

- If the Administration can support compromise bi-partisan legislation; there is a chance that an EZ Bill, with enhanced benefits for rural communities, could be approved this session.

1. Rural Empowerment Zones and Enterprise Communities

Location of Rural Empowerment Zones and Enterprise Communities



Empowerment Zones

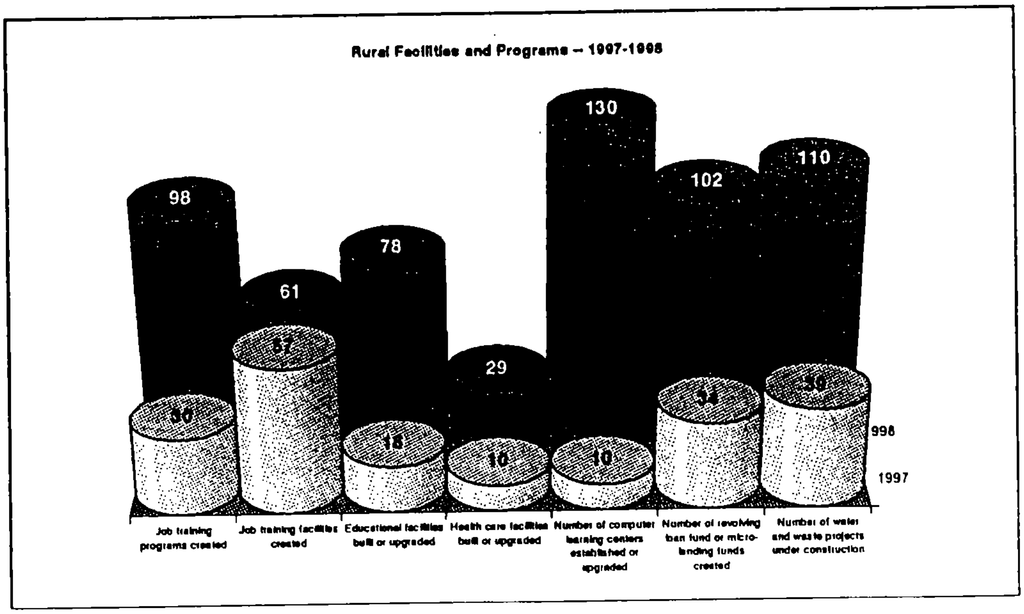
Kentucky Highlands EZ	KY
Mid-Delta EZ	MS
Rio Grande Valley EZ	TX

Enterprise Communities

Chambers County EC	AL
Greene & Sumter Counties Rural EC	AL
East Central Arkansas EC	AR
Mississippi County EC	AR
Arizona Border Region EC	AZ
Imperial County EC	CA
City of Watsonville EC	CA
Jackson County, Florida EC	FL
Crisp/Dooly EC	GA
Central Savannah River Area EC	GA
Northeast Louisiana Delta EC	LA
Macon Ridge EC	LA
Lake County EC	MI
City of East Prairie, MO EC	MO
North Delta Mississippi EC	MS
Halifax/Edgecombe/Wilson EC	NC
Robeson County EC	NC
La Jicarita EC	NM
Greater Portsmouth EC	OH
Southeast Oklahoma EC	OK
Josephine County EC	OR
City of Lock Haven Federal EC	PA
Williamsburg-Lake City EC	SC
Beadle/Spink/South Dakota EC	SD
Fayette County/Haywood County EC	TN
Scott/McCreary Area EC	TN
Accomack-Northampton, Virginia EC	VA
Lower Yakima County Rural EC	WA
Central Appalachia EC	WV
McDowell County EC	WV

2. Accomplishments and Accountability

Now in their third year of strategic plan implementation, rural EZ/ECs are showing rapid accomplishment



Selected Accomplishments by Rural Empowerment Zones and Enterprise Communities

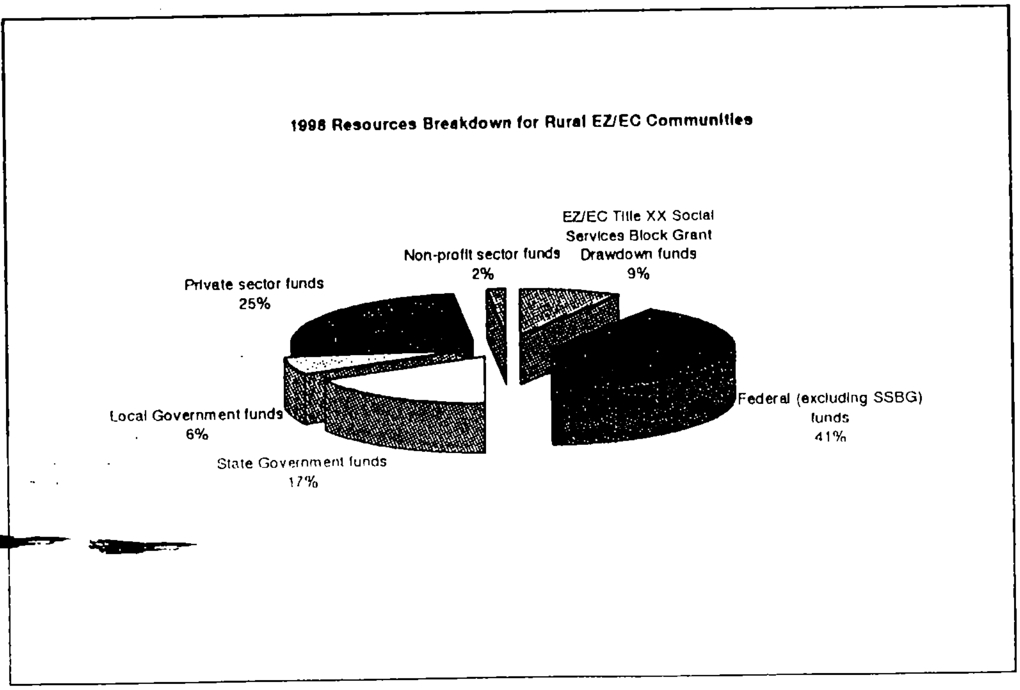
	As of January 1997	*As of January 1998*
Number of jobs created or saved	6,692	9,944
Job training programs created	30	98
Job training facilities created	57	61
Number of persons trained	5,709	14,229
Youth development programs created	21	212
Number of youth served by development programs	4,960	25,448
Health care facilities built or upgraded	18	78
Educational facilities built or upgraded	10	29
Number of computer learning centers established or upgraded	10	130
Number of computers donated	3,626	4,405
Number of revolving loan funds or micro-lending funds created	34	102
Number of housing units built or renovated	1,076	2,140
Number of water and waste projects under construction	39	110

Sources of Financing for Rural Empowerment Zones and Enterprise Communities (includes in-kind contributions)

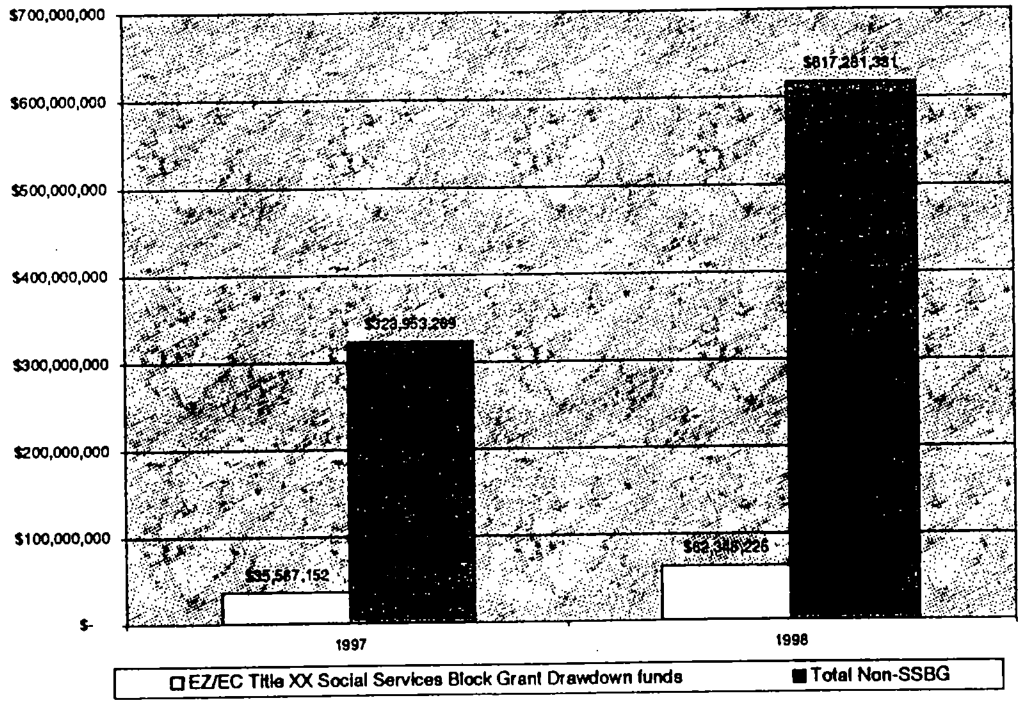
(Dollars in millions)

	As of January 1997	*As of January 1998*
Social Services Block Grants (SSBG)	$35.6	$62.3
Other Federal funds	113.5	276.5
State Government	88.2	117.7
Local Government	28.1	41.0
Private Sector	86.1	170.1
Non-profit	8.1	12.0
Total	*359.5*	*679.6*
Total Other than SSBG	324.0	617.3
Leveraging Ratio of non-SSBG to SSBG funds drawn down	9.1	9.9

Rural EZ/ECs Have Been Resourceful in Leveraging Their EZ/EC SSBG Funds



SSBG Funds Make Up a Small Share of Total Strategic Plan Funding



3. Success Stories from Rural Empowerment Zones and Enterprise Communities

The following sections report successful projects in rural Empowerment Zones and Enterprise Communities, arranged by the four key principles of the Community Empowerment Initiative:

- Economic Opportunity
- Sustainable Community Development
- Community-based Partnerships
- Strategic Vision for Change

Community Character Reflected in Strategic Plans

Economic Opportunity

Revolving Loan Program, Beadle/Spink EC (SD). The Beadle/Spink EC has combined a $1 million Intermediary Relending Program loan and a $500,000 Rural Business Enterprise Grant into a revolving loan program. Through this loan program, over fifty jobs have been created or saved, new businesses have been created, including retail stores, manufacturing centers, farms and construction companies, twenty housing projects have received assistance, and a youth livestock-purchase program has been started.

Container Technologies, Scott/McCreary EC (TN/KY). The Scott/McCreary Area Revitalization Team (SMART) joined with Container technologies, Inc. to achieve a major success. SMART used a portion of its EC loan/grant program to assist Container Technologies, a start-up waste container manufacturing company, to locate in Scott County. The result was not only 50 new jobs, but also an important impact on the local economy from Container Technology's agreement to utilize local trucking and supply companies.

Fantasy Custom Yachts, Kentucky Highlands EZ (KY). John Sturgill of Monticello in Wayne County, KY, approached the Kentucky Highlands Investment Corporation (KHIC), the lead entity for the Kentucky Highlands EZ, with some of his own money and a good business plan for his dream of opening Fantasy Custom Yachts. The KHIC counseled him on the various EZ incentives, and executed a loan for 25% of the needed start-up capital. Fantasy Custom Yachts opened its doors in September, 1996, and today employs 70 people, providing an annual payroll of over $1.1 million to residents of this impoverished community.

Sustainable Community Development

Flatwoods Artisan Cooperative, Central Appalachia EZ (WV). The Central Appalachia EZ (CAEZ) was the catalyst for the formation of a new non-profit cooperative organization called the Flatwoods Artisan Cooperative. This cooperative will provide marketing and educational services to artisans and crafts people in central West Virginia. The cooperative was chartered, a Board of Directors elected, and approximately 225 local artisans joined the cooperative. The cooperative negotiated a lease in a regional outlet mall on Interstate 79, at Flatwoods, Braxton County. The store opened Labor Day weekend in 1997, and sales have exceeded financial projections. Plans are being made to move into larger retail space. Additional funding has been requested from the Appalachian Regional Commission and the Charles Stewart Mott Foundation for business development and skills training to ensure that the initial success can be sustained.

Nogales Community Vocational Training Center, AZBREC (AZ). The Arizona Border Region EC has partnered with the Nogales Unified School District to fund the new Nogales Community Vocational Training Center. The center, which is scheduled to open in late spring of 1997, will provide an initial course of study which includes building trades and diesel mechanics. The experience provided by the center is significantly increased by the fact that the building trades will provide on-the-job training with the Nogales Housing Authority.

Small Business Incubator, City of Watsonville EC (CA). Within eleven months of its opening, all 12 retail spaces in the Watsonville EC's Small Business Incubator had been contracted. The stores include a fresh produce store, a hair salon, a soccer store, a Bible book store, an ice cream shop, a flower shop, and several clothing and gift boutiques. The El Pajaro Community Development Corporation provides all tenants with technical assistance. All tenants were assisted with the formation of their business plan. Additionally, three-month workshops are held on how to conduct the day-to-day operations of a business.

Community-Based Partnerships

Stairway, City of Watsonville (CA). A partnership between the EC, the Pajaro Valley Student Prevention and Assistance Program (PVSPAP), and the resident drug and alcohol rehabilitation program called "Yes, You Can!" program has produced a new program "Escalera" (Stairway). At-risk youth from PVSPAP will be paired with rehabilitation adults from the Yes, You Can program. The pairs will meet three or four times during the week in the EC's Computer Center where the experience of the rehabilitation staff will be coupled with valuable job skill training.

Idlewild Museum, Lake County EC (MI). From the 1920's to the 1960's, Idlewild (MI) was an important tourist destination for African-Americans and a regular stop for many famous African-American entertainers. The Lake County EC, partnering with the Friends of Historic Idlewild, an affiliated group of local civic and charitable organizations, is leading an effort to develop an African-American Museum and Cultural Center in Idlewild. Yates Township has deeded land to the EC for the site, and the Historic Idlewild Museum Fund has been created to raise contributions to support the development of this project. The African American Museum in Detroit and the Smithsonian Institution will be providing technical support.

Nursing Assistants Training Program, Northeast Louisiana Delta EC (LA). The Northeast Louisiana Delta Community Development Corporation, in partnership with the Louisiana Technical College, Tallulah, and the Madison Parish School Board, is providing a nursing assistant training program for high school seniors. These high school seniors receive Certified Nursing Assistant Certificates, along with their high school diplomas. Additionally, classes are held at the CDC's Delta Learning Center for adults.

Strategic Vision for Change

Downtown Revitalization Program, Lock Haven EZ (PA). Like so many rural communities, Lock Haven is facing the persistent problem of physical, economic, and social decline in its downtown. The challenge facing the city is to make the best of what it has by changing its thinking toward new initiatives for rebuilding and promoting its downtown. The city prepared a long-term strategic plan for the downtown business district through a State Planning Assistance Grant to the Pennsylvania Department of Community and Economic Development. The plan will coordinate the city's ongoing efforts, including a parking study for the downtown, and a unique commercial revolving loan program which provides up to $25,000, or 40 percent of total project costs, for small business start-up or improvements. The plan also provides for the formation of a downtown revitalization group to ensure and encourage wide public participation in the planning process.

Arkansas Champion Association, Arkansas. With active support from both the Arkansas Rural Development State Office and from the Office of Community Development, Non-Profit Resources, Inc. and Hubbell and Associates are coordinating "the Arkansas Champions Initiative." The Initiative provides resources to Arkansas' most needy communities as they develop comprehensive, grass-roots approaches to community renewal. With support from the Winthrop Rockefeller and W.K. Kellogg Foundations, programs are provided to the Champions which include a "Mini-Grant"

Program, annual working conferences, resources publications and Internet sites, and technical assistance. The result is an active network of Arkansas Champion Communities hard at work renewing partnerships, reshaping strategic plans, and implementing new programs.

North Carolina Board Training, Halifax/Edgecombe/Wilson EC (NC). In an effort to invigorate and ensure sustained broad citizen participation in community planning and governance, the EC requested that the National Office (OCD) develop and conduct a board-member training workshop. The first workshop was given on January 8-9, 1998, as a pilot project. Topics covered included Board roles and responsibilities, strategic planning, community outreach, and teaming. The training, which was well received, will serve as a model for board training workshops in other EZ/ECs.

Community Partnerships are Critical to the Success of Strategic Plan Implementation

Economic Opportunity

STRUT Program, Josephine County EC (OR). The Hidden Valley High School STRUT (Students Recycling Used Technology) Program is a partnership between Intel Corporation, the State of Oregon, and other local businesses, industries, and federal agencies for refurbishing and upgrading used computer-related equipment. The students receive valuable training, the schools obtain the computer equipment they need, and community members are able to utilize a very much appreciated resource.

Port Isabel Ferry, Rio Grande Valley EZ (TX). On June 19, 1997, The Rio Grande Valley EZ (RGVEZ), in cooperation with local business leaders, sponsored a trade mission too Honduras aboard the Regal Voyager Ferry. The objective was to create an economic link between Valley businesses and potential customers in this Central America area. The mission was an extraordinary success! The ferry now makes weekly round trips from Port Isabel, TX to Puerto Cortes, Honduras, the country's largest Caribbean Port. In order to educate the community, promote this business opportunity, and encourage Valley companies already exporting to Mexico to expand their horizons to Central America, RGVEZ, with the cooperation of the Minority Business Opportunity Center at The University of Texas-Pan American, compiled a Central American Resource Guide. The guide describes markets, legal issues, and governmental requirements in Guatemala, Honduras and Nicaragua.

Valley Border Trade Alliance, Imperial County EC (CA). The Imperial Valley Border Trade Alliance is in its second year as a grassroots organization working to support local businesses in international commerce. It is allied with the Border Trade Alliance (BTA) which was formed to act as a NAFTA watchdog organization and has transitioned into a national organization focusing on international commerce.

Sustainable Community Development

SEEDS, Southeast Oklahoma EC (OK). The Southeast Oklahoma EC, through the Self Employed Entrepreneur Development System (SEEDS), an Intermediary Revolving Loan Fund through Rural Development, and the Poor Man's Bank, funded with $100,000 in Social Service Block Grant funds, provides access to capital for very low and low-income residents for business start-ups and improvements. Projects are approved through the EC's Advisory Committee, and applicants are required to participate in a business training course before approval of their applications. The EC has created 18 new businesses and 43 new jobs. The new businesses range from a minority owned home health care business to a furniture restoration store.

Sustainable Technologies Industrial Park, Accomack/Northampton EC (VA). Ground was broken, and construction is underway for a Sustainable Technologies Industrial Park at the Port of Cape Charles, located in the Accomack/Northampton EC in Virginia. It is one of only four such industrial parks in the nation to be so designated by the President's Council on Sustainable Development. When finished, the park will house three businesses which will bring 200 new jobs to this EC.

Gillespie-Selden 24-Hour Day Care Center, Crisp/Dooley EC (GA). The Crisp/Dooley EC used $113,000 of a USDA Rural Business Enterprise Grant, as well as a portion of their Community Block Grant, to leverage additional private funds to carry out an important human-capital element of their strategic community plan. The EC built a new 24-hour Day Care Center as part of the restoration and re-use of buildings formerly part of the Black Institute of Gillespie-Selden. The EC Board, along with child care professionals, formed a committee to plan, solicit, and evaluate proposals to create 147 new child-care spaces for the two-county area. Most of the spaces are reserved for children from low-income families.

Community-Based Partnerships

NETmobile, Rio Grande Valley EZ (TX). It's a truck! It's a cyber truck! No, it's NETmobile! NETmobile is a 38-foot "fifth-wheel" trailer equipped with nine Pentium-based computers and state-of-the-art, two-way satellite transmission. Built by The University of Texas-Pan American, the NETmobile serves as a "bookmobile" of sorts to educate rural students, business owners, teachers, farmers, government officials, and residents of the RGVEZ about the information superhighway. The opportunity for rural Valley residents to access this $343,000 hands-on project is made possible through collaborative sponsorship by the RGVEZ, Dell Computers, Intel, Hughes Network Systems, Southwestern Bell Communications, ACS Dataline, and the University of Texas-Pan Am.

S.E. Arizona Health Clinic, Arizona Border Region EC (AZ). The Southeastern Arizona Health Clinic and the University of Arizona's Rural Health Office have collaborated to apply for a telemedicine grant from USDA's Rural Utilities Service. The grant will provide a state-of-the-art Telemedicine Program similar to the one at the Mariposa Clinic in Nogales, the result of an earlier collaboration in the EC.

Salico Co., City of Brawley, Imperial County EC (CA). The City of Brawley completed a 1.5 mile wastewater extension line to their industrial park which enabled a partnership with the Salico Company. This company has begun construction of an $8 million carrot processing plant. The facility will employ 150 people. The sewer extension was financed by partnering the EC's funds with a state Community Block Grant and with NADBank, BECC and California State Revolving Loan Fund monies. Also, as a result of the sewer extension, an established business moved to the Industrial Park and more than tripled its employees from 12 to 40.

Strategic Vision for Change

St. Johns Bayou-New Madrid Flood Control Project, City of East Prairie (MO). For 50 years, flooding has been a major obstacle to any economic revitalization in East Prairie, MO. When the East Prairie EC formulated its strategic plan, it incorporated provisions to finally eliminate the annual flooding disasters. The EZ forged a partnership with the Army Corps of Engineers, Congressional Representatives, local Levy Boards, the Cities of East Prairie and Charleston, Mississippi County, the City and County of New Madrid, and the state of Missouri. The result of this collaborative effort was the passage of legislation which permits USDA to assist in the Flood Control Project. On September 29, 1997, the EZ celebrated the groundbreaking ceremony for levee construction. This project will increase the comfort level of businesses desiring to locate along the Mississippi River in the EC.

Booker T. Washington Center, Southeast Oklahoma EC (OK). Booker T. Washington High School was the last all-black school in Hugo, OK when its doors were closed in 1968. For almost 30 years, the school was abandoned, and much of it burned down a few years ago. The rehabilitation of this old school into a youth recreational center holds great significance to the minority community, and has created extraordinary partnerships. The EC provided $125,000 to this effort, the State of Oklahoma provided $1,000,000, and the Choctaw County Commissioners are acting as general contractors. This center has begun to provide various programs which will eventually include after-school activities, a meeting center, drug and alcohol abuse prevention programs, and literacy classes. It also serves as an alternative academy for students who were unable to complete high school [redacted] traditional programs.

New Business & Industry Development Center, Greater Portsmouth EC (OH). The Greater Portsmouth EC has focused its attention on facilitating economic development and creating and retaining jobs. To meet its goals, the EC established an Ohio Valley Regional Development Commission's Business and Industry Development Center to serve three Ohio counties. The Center provides technical assistance and training to rural business and industry. Among its services, the Center's work program includes developing and maintaining database of businesses and industries within the district; surveying companies for information on technical assistance and training needs; and, conducting meetings with local Chambers of Commerce and small business development centers.

Working With the Private Sector, Job Creation is a Top Goal for Rural EZ/ECs

Dollar General Store, Mid-Delta EZ (MS). The Mid-Delta EZ (MDEZA) executed an agreement with the City of Indianola, MS and the Dollar General Corporation to establish an 800,000 square foot distribution facility that will bring 500 to 700 new jobs and a $5 million a year payroll to the Zone residents. MDEZA contributed approximately $900,000 to Dollar General Corporation's investment of $38 million. This is a community leveraging investment ratio of approximately 1:38! This expansion of Dollar General into the EZ has involved partnering between the Zone, the state, and both business and private sector interests.

Specialty Plastic Products of Kentucky, Inc., Kentucky Highlands EZ (KY). Specialty Plastic Products of Kentucky Inc. is an example of the success an Empowerment Zone can experience through long-term, incremental partnering with businesses interested in locating in the Zone. In April 1995, a Pennsylvania company sought to lease a vacant building in McKee, KY, to expand their manufacturing of military items. The Kentucky Highlands EZ encouraged their expansion into the Zone by providing temporary funding for the lease. By the end of 1995, the operation in the leased facility had grown to 96 employees and production rates were the highest of any of the company's facilities. Prodded by the EZ, the parent company decided to make a long-term commitment to the project by purchasing the building and expanding production at the site, for which the EZ provided financing. In September 1996, Specialty Plastic Products of Kentucky, Inc., with financing provided by the EZ, again expanded, adding 50 additional jobs. In March, 1998, again with financing provided by the EZ, a second plant is scheduled to open in McKee, adding 175 additional employees. To-date, that is 321 jobs!

Jakel Manufacturing, East Prairie EC (MO). Through collaborative effort by EC partners, Jakel, Inc. is the city's newest industrial employer. The city government purchased an abandoned 60,000 square foot industrial building which was leased by the East Prairie Development Corporation (EPDC), a group of local business leaders and concerned citizens. The EPDC borrowed money from local Mississippi County financial institutions to renovate 30,000 square feet of the building; the USDA Rural Economic and Community Development Administration provided a grant to the city to renovate the other 30,000 sq. ft. The Missouri Department of Economic Development provided CDBG funds for sewer and parking improvements, and Union Electric donated a transformer needed for the building. The result is 150 new jobs for the community.

InterBank, McDowell County EC (WV). A subsidiary of InterBank of Herndon, Virginia, Invest in America, a telemarketing company, is scheduled to open in Welch, McDowell County, WV, on April1, 1998. The location of this company in this EC, in one of the poorest counties in West Virginia, will create 500 jobs with wages that range from $5.15 to $6.00/hr, and include 401(k), medical, and dental benefits. The contagious enthusiasm and business-friendly atmosphere projected by the EC leaders helped persuade InterBank to locate in southern West Virginia.

Ayers Corporation, Jackson County, Florida EC. The Jackson County Development Council, Inc., using as one of its key attractions the county's designation as an EC, is currently submitting a proposal to Ayers Corporation of Albany, Georgia, with appropriate federal, state, and local incentives valued up to $18 million for the company to locate an assembly plant in the EC. Ayers Corporation, a major aircraft manufacturing company, plans an initial hiring of 125 assembly employees at a beginning salary of approximately $9.00/hr. Future employment at the facility is estimated as high as 400 additional jobs.

North American Shipbuilding, Inc., Macon Ridge EC, (LA). Macon Ridge EC partnered with the South Louisiana Economic Council, Louisiana Technical College, and North American Shipbuilding, Inc. To match-up the area's unemployed with 2,000 available jobs in South Louisiana. The beauty of this project is that none of the EC residents need to relocate. The companies in South Louisiana are willing to provide temporary week-day housing for the EC workers. The program is supplemented by the technical college, offering additional training for those whose skills were not adequate for immediate hiring.

Killdeer Mountain Manufacturing, S.W. REAP Zone (ND). On May 15, 1997, the Kildeer Mountain Manufacturing's (KMM) "Small Business Innovation Research" kicked-off Phase I. KMM is working with its consultants, McDonnell Douglas Aerospace, Business Development, Dr. Joel Troxler of Montana State University, and the Center of Innovation and Business Development to develop a measure to monitor community impact and a decision-support model of a Rural Distributed Manufacturing Systems (RDMS) manufacturing network as a virtual enterprise. Phase I will consist of developing operating guidelines and the communications network by establishing a pilot RDMS program. The goal is to bring together technologies and operating techniques that can then distribute manufacturing work over the entire Southwest REAP Zone.

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

March 31, 1998

The Honorable Albert Gore, Jr.
President of the Senate
Washington, DC 20510

Dear Mr. President:

Enclosed for the consideration of the Congress is the Administration's draft bill, the "Empowerment Zone Enhancement Act of 1998". The Empowerment Zone/Enterprise Community (EZ/EC) Initiative involves the leadership of numerous federal agencies working together with state and local governments and community residents. We are pleased to be a part of this effort, and to submit this bill in partnership with the Secretaries of Housing and Urban Development and Agriculture, the two lead agencies for the program. This bill would provide funding for grants to a second round of Empowerment Zones, and would make other amendments. The provisions of the bill are described in the enclosed summary.

The purpose of the Empowerment Zone/Enterprise Community (EZ/EC) Initiative is to assist distressed urban and rural communities to develop and implement holistic revitalization programs. In the first round of the initiative, 105 urban and rural EZs and ECs were designated. The Taxpayer Relief Act of 1997 authorized designation of 20 additional EZs (15 urban and 5 rural), and provided for tax incentives for these zones. However, that Act did not provide the flexible grant funding critical to the core concept and mission of the EZ/EC Initiative.

This bill provides for $1.7 billion in grant funds over a 10-year period, $1.5 billion for the urban zones and $0.2 billion for the rural zones. The passage of this bill is critical to the continued success of the EZ/EC Initiative.

The EZ/EC Initiative has not only produced the intended benefits of creating economic opportunity, broad-based community partnerships and sustainable community development, but has also had far-reaching spin-off benefits in bringing together all segments of the EZ/ECs around the goal of community revitalization. Among its benefits:

- The initiative has attracted private investment to areas of cities where there had been no such investment until the EZ/EC Initiative provided tax incentives, financing assistance, and an improved investment environment. Over $4 billion in private investment has been leveraged in EZs and ECs.

- Nearly 20,000 jobs have been created that have been filled by people who have not had access to economic opportunity. The EZ/EC Initiative has provided life-transforming jobs for many people who have been unemployed or underemployed, and who can now care for their families and contribute to their communities.

- Entrepreneurship opportunities have been created for people with a dream and the drive to see that dream realized.

- Job training and education opportunities have been created for nearly 45,000 EZ/EC residents.

- The initiative has created affordable housing opportunities for EZ/EC residents, and helped communities to stabilize neighborhoods. More than 12,000 housing units are being constructed or rehabilitated.

- Communities have been helped to address public safety, infrastructure, and environmental clean-up needs through more than 350 programs designed to address these issues.

- The initiative has helped rebuild families, providing more than 52,000 children, youth, and adults with services to help overcome their challenges and enhance their development potential. These services include affordable and accessible health care, child care, and youth development programs that help them develop a sense of competency and a belief that they can control their lives.

- The initiative has created unique and innovative partnerships - bringing together people who have never worked together, to solve problems and create opportunity.

In short, the EZ/EC Initiative has proven to be a successful holistic approach to community revitalization, which has created renewed hopes and dreams for communities and people across this country, who had been without hope for a better life.

The application process for the second round of Empowerment Zones will begin in mid-April, 1998. The application process must begin in April to give potential applicants adequate time to prepare their strategic plans, so that the Secretaries of Housing and Urban Development and Agriculture can make their designations by the statutory deadline of January 1, 1999.

The Omnibus Budget Reconciliation Act (OBRA) of 1990 requires that all revenue and direct spending legislation meet a pay-as-you-go (PAYGO) requirement. That is, no such bill should result in an increase in the deficit; and if it does, it could contribute to a sequester if it is not fully offset. This proposal would increase direct spending; therefore, it is subject to the PAYGO requirement. Offsets for this proposal were included in the President's Budget for fiscal year 1999.

The Office of Management and Budget has advised that the enactment of this legislation would be in accord with the program of the President.

Sincerely,

Donna E Shalala

Donna E. Shalala

Enclosures

Total Pages: ___

LRM ID: REJ426

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Wednesday, April 1, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: James J. Jukes (for) Assistant Director for Legislative Reference

OMB CONTACT: Ronald E. Jones
PHONE: (202)395-3386 FAX: (202)395-3109

SUBJECT: **TRANSMITTAL COPY of HHS/HUD/Agriculture Draft Bill on Empowerment Zone Enhancement Act of 1998**

DEADLINE: **FYI ONLY -- NO ACTION REQUIRED**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

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THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

March 31, 1998

The Honorable Albert Gore, Jr.
President of the Senate
Washington, DC 20510

Dear Mr. President:

Enclosed for the consideration of the Congress is the Administration's draft bill, the "Empowerment Zone Enhancement Act of 1998". The Empowerment Zone/Enterprise Community (EZ/EC) Initiative involves the leadership of numerous federal agencies working together with state and local governments and community residents. We are pleased to be a part of this effort, and to submit this bill in partnership with the Secretaries of Housing and Urban Development and Agriculture, the two lead agencies for the program. This bill would provide funding for grants to a second round of Empowerment Zones, and would make other amendments. The provisions of the bill are described in the enclosed summary.

The purpose of the Empowerment Zone/Enterprise Community (EZ/EC) Initiative is to assist distressed urban and rural communities to develop and implement holistic revitalization programs. In the first round of the initiative, 105 urban and rural EZs and ECs were designated. The Taxpayer Relief Act of 1997 authorized designation of 20 additional EZs (15 urban and 5 rural), and provided for tax incentives for these zones. However, that Act did not provide the flexible grant funding critical to the core concept and mission of the EZ/EC Initiative.

This bill provides for $1.7 billion in grant funds over a 10-year period, $1.5 billion for the urban zones and $0.2 billion for the rural zones. The passage of this bill is critical to the continued success of the EZ/EC Initiative.

The EZ/EC Initiative has not only produced the intended benefits of creating economic opportunity, broad-based community partnerships and sustainable community development, but has also had far-reaching spin-off benefits in bringing together all segments of the EZ/ECs around the goal of community revitalization. Among its benefits:

- The initiative has attracted private investment to areas of cities where there had been no such investment until the EZ/EC Initiative provided tax incentives, financing assistance, and an improved investment environment. Over $4 billion in private investment has been leveraged in EZs and ECs.

- Nearly 20,000 jobs have been created that have been filled by people who have not had access to economic opportunity. The EZ/EC Initiative has provided life-transforming jobs for many people who have been unemployed or underemployed, and who can now care for their families and contribute to their communities.

- Entrepreneurship opportunities have been created for people with a dream and the drive to see that dream realized.

- Job training and education opportunities have been created for nearly 45,000 EZ/EC residents.

- The initiative has created affordable housing opportunities for EZ/EC residents, and helped communities to stabilize neighborhoods. More than 12,000 housing units are being constructed or rehabilitated.

- Communities have been helped to address public safety, infrastructure, and environmental clean-up needs through more than 350 programs designed to address these issues.

- The initiative has helped rebuild families, providing more than 52,000 children, youth, and adults with services to help overcome their challenges and enhance their development potential. These services include affordable and accessible health care, child care, and youth development programs that help them develop a sense of competency and a belief that they can control their lives.

- The initiative has created unique and innovative partnerships - bringing together people who have never worked together, to solve problems and create opportunity.

In short, the EZ/EC Initiative has proven to be a successful holistic approach to community revitalization, which has created renewed hopes and dreams for communities and people across this country, who had been without hope for a better life.

The application process for the second round of Empowerment Zones will begin in mid-April, 1998. The application process must begin in April to give potential applicants adequate time to prepare their strategic plans, so that the Secretaries of Housing and Urban Development and Agriculture can make their designations by the statutory deadline of January 1, 1999.

The Omnibus Budget Reconciliation Act (OBRA) of 1990 requires that all revenue and direct spending legislation meet a pay-as-you-go (PAYGO) requirement. That is, no such bill should result in an increase in the deficit; and if it does, it could contribute to a sequester if it is not fully offset. This proposal would increase direct spending; therefore, it is subject to the PAYGO requirement. Offsets for this proposal were included in the President's Budget for fiscal year 1999.

The Office of Management and Budget has advised that the enactment of this legislation would be in accord with the program of the President.

Sincerely,

Donna E. Shalala

Enclosures

"Empowerment Zone Enhancement Act of 1998"

Section-by-Section Summary

SEC. 2. FUNDING ENTITLEMENT FOR ADDITIONAL EMPOWERMENT ZONES.

Section 2 amends section 2007(a) of the Social Security Act to authorize funding for the 20 new empowerment zones (EZs) authorized by section 1391(g) of the Internal Revenue Code of 1986, as amended by section 13301 of the Taxpayer Relief Act of 1997.

Subsection (a) entitles each State to ten grants for each new EZ located within its borders.

Subsection (b) provides that each annual grant shall be $10 million for a zone designated in an urban area, and $4 million for a zone designated in a rural area (or that amount multiplied by the percentage of population in the zone that resides in the State).

Subsection (c) provides that the first annual grant with respect to a new EZ shall be made on the date of designation, and that additional grants shall be made on the first day of each of the nine subsequent fiscal years.

Subsection (d) provides that funding of $1.7 billion shall be made available to the Secretary of HHS for grants to the new EZs.

SEC. 3. RESPONSIBILITY FOR ENVIRONMENTAL REVIEW.

Section 3 adds to section 2007 of the Social Security Act a new subsection (f) (ENVIRONMENTAL REVIEW) which would require, with respect to EZ/EC grants under section 2007, that the Secretaries of Housing and Urban Development (HUD) (for urban zones) and Agriculture (USDA) (for rural zones) execute the responsibilities, under the National Environmental Policy Act of 1969 (NEPA) and other provisions of law which further the purposes of NEPA, that would otherwise be the responsibility of the Secretary of Health and Human Services (HHS). In addition, HUD and USDA would be authorized to permit States, units of general local government, and Indian tribes to assume these Federal environmental review responsibilities in accordance with specified requirements.

This authority is closely modeled on the environmental review procedures established for HUD's Community Development Block Grant program by the Housing and Community Development Act of 1974 and for numerous other HUD programs since 1974, including the HOME affordable housing program and the Public Housing program. HUD and USDA, respectively, would issue regulations for each to carry out this authority after consultation with the Council on Environmental Quality.

SEC. 4. PERFORMANCE MEASUREMENT AND EVALUATION; GRANT ADJUSTMENTS.

Section 4 adds to section 2007 of the Social Security Act a new subsection (g) (PERFORMANCE MEASUREMENT SYSTEM, REPORTS AND EVALUATIONS, GRANT ADJUSTMENTS, AND RELATED MATTERS). This subsection requires the lead implementing entity for each of the 20 new empowerment zones (1) to establish a performance measurement system acceptable to the appropriate Secretary (defined as the Secretary of HUD for an urban EZ and the Secretary of Agriculture for a rural EZ); and (2) to use the system to assess and report to the appropriate Secretary on effectiveness of use of grant funds and progress toward implementing the EZ's strategic plan. The appropriate Secretary is required to evaluate the EZ's performance, and is authorized to direct the Secretary of HHS to adjust, reduce, or cancel the State's EZ grant under this section on the basis of this evaluation.

This section does not alter the requirement under section 2006 of the Social Security Act that the State perform an audit of title XX grants, including those to EZs, and submit that audit

to the Secretary of HHS. In addition, the Secretary of HHS retains all current responsibilities under section 2006 concerning the review of those audits.

A BILL

To amend section 2007 of the Social Security Act to provide grant funding for 20 additional Empowerment Zones, and for other purposes.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Empowerment Zone Enhancement Act of 1998".

SEC. 2. FUNDING ENTITLEMENT FOR ADDITIONAL ENTERPRISE ZONES.

(a) ENTITLEMENT.—Section 2007(a)(1) of the Social Security Act (42 U.S.C. 1397f(a)) is amended—

(1) in subparagraph (A), by striking "in the State; and" and inserting "in the State designated pursuant to section 1391(b) of the Internal Revenue Code of 1986;";

(2) in subparagraph (B), by striking the period at the end and inserting "; and"; and

(3) by adding after subparagraph (B) the following new subparagraph:

"(C) 10 grants under this section for each qualified empowerment zone in the State designated pursuant to section 1391(g) of such Code.".

(b) AMOUNT OF GRANTS.—Section 2007(a)(2) of that Act (42 U.S.C. 1397f(a)(2)) is amended—

(1) in the heading of subparagraph (A), by inserting "ORIGINAL" before EMPOWERMENT";

(2) in subparagraph (A), in the matter preceding clause (i), by inserting "described in paragraph (1)(A)" after "empowerment zone";

(3) by redesignating subparagraph (C) as subparagraph (D); and

(4) by inserting after subparagraph (B) the following new subparagraph:

"(C) ADDITIONAL EMPOWERMENT GRANTS.—The amount of each grant to a State under this section for a qualified empowerment zone described in paragraph (1)(C) shall be—

"(i) if the zone is designated in an urban area, $10,000,000, or

"(ii) if the zone is designated in a rural area, $4,000,000,

multiplied by the proportion of the population of the zone that resides in the State.".

(c) TIMING OF GRANTS.—Section 2007(a)(3) of that Act (42 U.S.C. 1397f(a)(3)) is amended—

(1) in the heading of subparagraph (A), by inserting "ORIGINAL" before "QUALIFIED";

(2) in subparagraph (A), in the matter preceding clause (i), by inserting "described in paragraph (1)(A)" after "empowerment zone"; and

(3) by adding after subparagraph (B) the following new subparagraph:

"(C) ADDITIONAL QUALIFIED EMPOWERMENT ZONES.-With respect to each qualified empowerment zone described in paragraph (1)(C), the Secretary shall make—

"(i) 1 grant under this subsection to the State in which the zone lies, on the date of the designation of the zone under such part I; and

"(ii) 1 grant under this subsection to such State, on the first day of each of the nine fiscal years that begin after the date of the designation.".

(d) FUNDING.—Section 2007(a)(4) of that Act (42 U.S.C. 1397f(a)(4)) is amended—

(1) by relocating and redesignating the matter following the caption as subparagraph (A);

(2) by inserting "ORIGINAL GRANTS.—" after the subparagraph designation "(A)";

(3) in subparagraph (A), as so redesignated, by inserting before the period "for empowerment zones and enterprise communities described in subparagraphs (A) and (B) of paragraph (1)"; and

(4) by adding after subparagraph (A), as so redesignated, the following new subparagraph:

"(B) ADDITIONAL GRANTS.—$1,700,000,000 shall be made available to the Secretary for grants under this section for empowerment zones described in paragraph (1)(C).".

SEC. 3. RESPONSIBILITY FOR ENVIRONMENTAL REVIEW.

Section 2007 of the Social Security Act (42 U.S.C. 1397f) is amended—

(1) by redesignating subsection (f) as subsection (h); and

(2) by inserting after subsection (e) the following new subsection:

"(f) ENVIRONMENTAL REVIEW.

"(1) EXECUTION OF RESPONSIBILITY BY THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT AND THE SECRETARY OF AGRICULTURE.

"(A) APPLICABILITY.—This subsection shall apply to grants under this section in connection with empowerment zones and enterprise communities designated under section 1391(a) of the Internal Revenue Code of 1986 and empowerment zones designated under section 1391(g) of such Code—

"(i) by the Secretary of Housing and Urban Development in the case of those located in urban areas; and

"(ii) by the Secretary of Agriculture in the case of those located in rural areas.

"(B) EXECUTION OF RESPONSIBILITY.—With [redacted] to grants described in subparagraph (A), the Secretary of Housing and Urban Development and the Secretary of Agriculture, as appropriate, shall execute the responsibilities under the National Environmental Policy Act of 1969 and other provisions of law which further the purposes of such Act (as specified in regulations issued by each such Secretary under paragraph (2)(B)) that would otherwise apply to the Secretary of Health and Human Services, and may provide for the assumption of such responsibilities in accordance with paragraphs (2) through (5).

"(C) DEFINITION OF SECRETARY.—Except as used in subparagraphs (A) and (B), the term 'Secretary' as used in this subsection means the Secretary of Housing and Urban Development for purposes of grants under this section with respect to urban areas and means the Secretary of Agriculture for purposes of grants under this section with respect to rural areas.

"(2) ASSUMPTION OF RESPONSIBILITY BY STATES, UNITS OF GENERAL LOCAL GOVERNMENT, AND INDIAN TRIBES.—

"(A) RELEASE OF FUNDS.—In order to assure that the policies of the National Environmental Policy Act of 1969 and other provisions of law that further the purposes of such Act (as specified in regulations issued by the Secretary under paragraph (2)(B)) are most effectively implemented in connection with the expenditure of funds under this section, and to assure to the public undiminished protection of the environment, the Secretary may, under such regulations, in lieu of the environmental protection procedures otherwise applicable, provide for the release of funds for particular projects to recipients of assistance under this section if the State, unit of general local government, or Indian tribe, as designated by the Secretary in accordance with regulations issued by the Secretary under paragraph (2)(B), assumes all of the responsibilities for environmental review, decisionmaking, and action pursuant to such Act, and such other provisions of law as the regulations of the Secretary specify, that would otherwise apply to the Secretary were the Secretary to undertake such projects as Federal projects.

"(B) IMPLEMENTATION.—The Secretary of Housing and Urban Development and the Secretary of Agriculture shall each issue regulations to carry out this subsection only after consultation with the Council on Environmental Quality. Such regulations shall—

"(i) specify any other provisions of law which further the purposes of the National Environmental Policy Act of 1969 and to which the assumption of responsibility as provided in this subsection applies;

"(ii) provide eligibility criteria and procedures for the designation of a State, unit of general local government, or Indian tribe to assume all of the responsibilities in this section;

"(iii) specify the purposes for which funds may be committed without regard to the procedure established under paragraph (3);

"(iv) provide for monitoring of the performance of environmental reviews under this subsection;

"(v) in the discretion of the Secretary, provide for the provision or facilitation of training for such performance; and

"(vi) subject to the discretion of the Secretary, provide for suspension or termination by the Secretary of the assumption under subparagraph (A).

"(C) RESPONSIBILITIES OF STATE, UNIT OF GENERAL LOCAL GOVERNMENT, OR INDIAN TRIBE.—The Secretary's duty under subparagraph (B) shall not be construed to limit any responsibility assumed by a State, unit of general local government, or Indian tribe with respect to any particular release of funds under subparagraph (A).

"(3) PROCEDURE.—The Secretary shall approve the release of funds for projects subject to the procedures authorized by this subsection only if, not less than 15 days prior to such approval and prior to any commitment of funds to such projects (except for such purposes specified in the regulations issued under paragraph (2)(B)), the recipient submits to the Secretary a request for such release accompanied by a certification of the State, unit of general local government, or Indian tribe which meets the requirements of paragraph (4). The approval by the Secretary of any such certification shall be deemed to satisfy the Secretary's responsibilities pursuant to paragraph (1) under the National Environmental Policy Act of 1969 and such other provisions of law as the regulations of the Secretary specify insofar as those responsibilities relate to the releases of funds for projects to be carried out pursuant thereto which are covered by such certification.

"(4) CERTIFICATION.—A certification under the procedures authorized by this subsection shall—

"(A) be in a form acceptable to the Secretary;

"(B) be executed by the chief executive officer or other officer of the State, unit of general local government, or Indian tribe who qualifies under regulations of the Secretary;

"(C) specify that the State, unit of general local government, or Indian tribe under this subsection has fully carried out its responsibilities as described under paragraph (2); and

"(D) specify that the certifying officer—

"(i) consents to assume the status of a responsible Federal official under the National Environmental Policy Act of 1969 and each provision of law specified in regulations issued by the Secretary insofar as the provisions of such Act or other such provision of law apply pursuant to paragraph (2); and

"(ii) is authorized and consents on behalf of the State, unit of general local government, or Indian tribe and himself or herself to accept the jurisdiction of the Federal courts for the purpose of enforcement of the responsibilities as such an official.

"(5) APPROVAL BY STATES.—In cases in which a unit of general local government carries out the responsibilities described in paragraph (2), the Secretary may permit the State to perform those actions of the Secretary described in paragraph (3). The performance of such actions by the State, where permitted, shall be deemed to satisfy the responsibilities referred to in the second sentence of paragraph (3).".

SEC. 4. PERFORMANCE MEASUREMENT AND EVALUATION; GRANT ADJUSTMENTS.

Section 2007 of the Social Security Act (42 U.S.C. 1397f), as amended by section 4, is further amended by adding after subsection (f) the following new subsection:

"(g) PERFORMANCE MEASUREMENT SYSTEM, REPORTS, AND EVALUATIONS, GRANT ADJUSTMENTS, AND RELATED MATTERS.

"(1) APPLICABILITY.—The requirements of this subsection—

"(A) apply to all grants made by a State, from grants to the State under subsection (a)(2)(C), to lead implementing entities (as defined in paragraph (7)) for empowerment zones designated pursuant to section 1391(g) of the Internal Revenue Code of 1986 (26 U.S.C. 1391(g)); and

"(B) are in addition to the annual report and biennial audit requirements applicable to States under section 2006.

"(2) PERFORMANCE MEASUREMENT SYSTEM.—The lead implementing entity for an empowerment zone shall establish a performance measurement system acceptable to the Secretary to assist in assessing the extent to which its strategic plan is being implemented and funds made available under subsection (a)(2)(C) are being used effectively.

"(3) PERFORMANCE REPORT.—Each lead implementing entity shall submit to the Secretary (and make available to the public upon request), at such time and in such manner as the Secretary shall prescribe, a report including an assessment of the progress the empowerment zone has made toward implementing its strategic plan, and such other information as the Secretary shall prescribe. To the extent practicable, the report shall also include information available to the lead implementing entity with respect to the use of tax incentives available to empowerment zones designated pursuant to section 1391(g) of the Internal Revenue Code of 1986.

"(4) PERFORMANCE EVALUATIONS, ADJUSTMENTS, AND RECORDKEEPING.

"(A) PERFORMANCE EVALUATIONS.—The Secretary shall regularly evaluate the progress of the lead implementing entity for the empowerment zone in implementing the strategic plan for the zone, on the basis of performance reviews and any other information that the Secretary may require.

"(B) ADJUSTMENTS.—On the basis of the Secretary's evaluation under subparagraph (A), the Secretary may direct the Secretary of Health and Human Services to adjust, reduce, or cancel the grant to a State under subsection (a)(2)(C) for the current or any future fiscal year or years, except that amounts already properly expended by a lead implementing entity on eligible activities under this Act shall not be recaptured or deducted from future grants to the State.

"(5) RETENTION OF RECORDS.—Each lead implementing entity shall keep such records relating to funds received from grants to the State under subsection (a)(2)(C), including the amounts and disposition of such funds and the types of activities funded, as the Secretary determines to be necessary to enable the Secretary to evaluate the performance of the lead implementing agency and to determine compliance with the requirements of this subsection.

"(6) SECRETARY'S ACCESS TO DOCUMENTS.—The Secretary shall have access, for the purpose of evaluations and examinations pursuant to paragraph (4)(A), to any books, documents, papers, and records of any grantee or other entity or person that are pertinent to grant amounts received in connection with this section.

"(7) DEFINITIONS.—For purposes of this subsection—

"(A) The term 'lead implementing entity' means the local government or governments, the governance body of an empowerment zone as specified in the strategic plan, or any non-profit entity that is principal administrator of an empowerment zone.

"(B) The term 'Secretary' means the Secretary of Housing and Urban Development for purposes of grants under this section with respect to urban areas and means the Secretary of Agriculture for purposes of grants under this section with respect to rural areas, except as the context otherwise indicates.".

SEC. 5. TECHNICAL AMENDMENTS.

Section 2007(b) of the Social Security Act is amended

(1) in paragraph (2), in the matter preceding subparagraph (A), by striking "to prevent"; and

(2) in paragraph (4), in the matter preceding subparagraph (A), by striking "maintain" and inserting "maintaining".