



Testimony

Before the Committee on Small Business, House of
Representatives

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COMMUNITY DEVELOPMENT

Information Related to H.R. 3865, the American Community Renewal Act of 1998

Statement of Stanley J. Czerwinski,
Associate Director,
Housing and Community Development Issues,
Resources, Community, and Economic
Development Division



Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the targeting of community development benefits included in H.R. 3865, the American Community Renewal Act of 1998, as well as to share lessons learned from the early implementation of another community development program that created Empowerment Zones and Enterprise Communities. The bill we are discussing today, H.R. 3865, was introduced in the House of Representatives May 14, 1998, and allows for the designation of 100 areas as “renewal” communities. These communities would receive incentives to increase jobs, form and expand small businesses, and increase educational opportunities and homeownership. To be eligible for designation as a renewal community, the community must meet economic distress criteria of at least 150 percent of the national unemployment rate, at least 20 percent poverty, and in urban areas, at least 70 percent of the community’s households must have incomes less than 80 percent of the area median household income. Empowerment Zones and Enterprise Communities, authorized by the Omnibus Budget Reconciliation Act of 1993 and the Taxpayer Relief Act of 1997, seek to promote the revitalization of economically distressed areas.

In our statement today, we identify the number of Census tracts that meet the poverty and unemployment requirements of H.R. 3865 which are the same criteria as in the bill’s predecessor, H.R. 1031,¹ on which we recently reported.² On the basis of our preliminary analysis, we agreed with the requestors’ staffs not to include the median income measure, because it severely restricted the number of tracts, particularly rural tracts, that could qualify for assistance. We will also discuss the results of a prior report that focused on six urban empowerment zones in which we described the early implementation of the program, including factors that participants believed may have either helped or hindered efforts to carry out the program.³ These lessons from the early Empowerment Zone implementation may be useful when considering H.R. 3865.

In summary, we found the following:

¹H.R. 1031, the American Community Renewal Act of 1997 was introduced in the House of Representatives, March 12, 1997.

²Community Development: Identification of Economically Distressed Areas ([GAO/RCED-98-158R](#), May 12, 1998).

³Community Development: Status of Urban Empowerment Zones ([GAO/RCED-97-21](#), Dec. 20, 1996).

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- Out of nearly 59,000 census tracts nationwide, 9,184 tracts met both the poverty and unemployment requirements of the bill, according to our analysis of 1990 Census data. These tracts include 1,354 census tracts in rural areas; 7,396 in urban areas; and 434 in mixed urban/rural areas. Fourteen percent of these census tracts are located in an Empowerment Zone or Enterprise Community.
 - More than half of the local, state, and federal officials involved in implementing the Empowerment Zone program who responded to a survey that we conducted in 1996 agreed on the factors that had either helped or hindered their efforts to implement the program. For example, they identified factors such as community representation within the governance structures and enhanced communication among stakeholders as helping the program's implementation. Similarly, preexisting relationships among Empowerment Zone stakeholders and pressure for quick results were identified as hindering the program's implementation.

Background

On May 14, 1998, H.R. 3865, was introduced in the House of Representatives to allow the Secretary of the Department of Housing and Urban Development (HUD) to designate up to 100 areas as renewal communities. For these communities, the bill seeks to increase the number of new jobs; form and expand small businesses; increase educational opportunities and homeownership; and foster moral renewal by providing federal tax incentives, regulatory reform, and homeownership incentives.

A renewal community under H.R. 3865 must, among other things, have (1) a poverty rate of at least 20 percent, (2) an unemployment rate of at least 1.5 times the national unemployment rate, and (3) in the case of an urban area, at least 70 percent of the households living in the area have incomes below 80 percent of the area median household income. In addition, H.R. 3865 provides that a renewal community be within the jurisdiction of a local government, have a continuous boundary, and meet population requirements.⁴

Empowerment Zones and Enterprise Communities (EZ/EC), which also are designed to promote the revitalization of economically distressed areas, were authorized by the Omnibus Budget Reconciliation Act of 1993 and

⁴Population requirements are that the area have (1) at least 4,000 persons if any portion of the area is located within a Metropolitan Statistical Area (MSA) which has a population of at least 50,000 or (2) 1,000 persons in any other case. There is no population requirement if the area is entirely within an Indian reservation.

the Taxpayer Relief Act of 1997. To date, 105 communities, including both urban and rural areas, have been designated as either an EZ or EC.

Number of Tracts That Meet Both the Poverty and Unemployment Criteria of H.R. 3865

To identify areas that could be part of a designated renewal community, we analyzed the most recent data (1990 Census) from the Census Bureau. Using these data, we identified census tracts⁵ with at least 50 households, that met the poverty and unemployment criteria of H.R. 3865. The Census Bureau defines census tracts as small, relatively permanent statistical subdivisions of counties.

The term “community” is not defined in census data and can take many different forms. However, a community would most likely include more than one census tract. For example, the “community” that is participating in the EZ program in Atlanta includes 23 census tracts and the participating “community” in a Chicago EZ includes 96 census tracts.⁶

As shown in table 1, our analysis identified 9,184 of 58,981 census tracts throughout the country that meet the poverty and unemployment criteria of H.R. 3865. As previously stated, this analysis does not include the bill’s median income criteria for either rural or urban tracts.

The table does show the number of tracts that are urban or rural in nature in the nation, as well as for those that meet the bill’s poverty and unemployment criteria. In order to identify a tract as urban, rural, or mixed urban/rural, we used Census Bureau’s data on whether persons lived in rural or urban areas. We defined tracts as rural if more than 80 percent of the residents of the tract were designated as rural. If more than 80 percent of the residents of the tract were designated as urban, then we defined the tract as urban. All other tracts were defined as mixed urban/rural tracts.

⁵We use the term “census tracts” to include census tracts, as well as Block Numbering Areas used by the Census Bureau for areas where census tracts have not been established.

⁶The EZ/EC program requires that their geographic area include whole census tracts. The use of census tracts to draw EZ boundaries instead of using existing neighborhoods was identified as a factor hindering EZ planning and implementation efforts.

Table 1: Number of Census Tracts in Total and Number of Census Tracts That Meet the Poverty and Unemployment Criteria of H.R. 3865

	Tracts in the nation ^a	Tracts meeting both criteria
Rural	13,719	1,354
Urban	40,173	7,396
Mixed urban/rural	5,089	434
Total	58,981	9,184

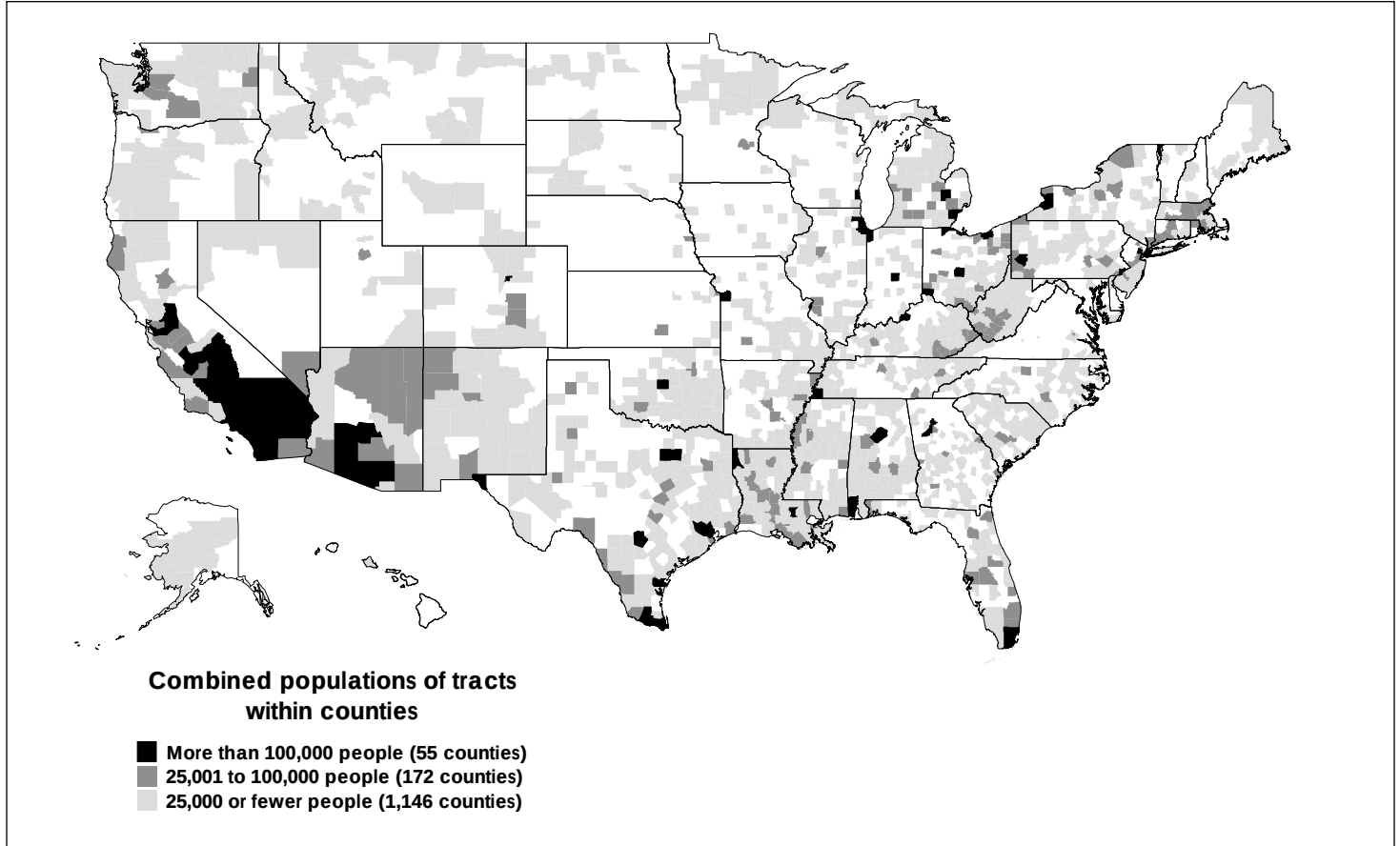
^aWe included census tracts in the analysis if a tract had at least 50 households. Tracts with less than 50 households were not included—there were 2,277 such tracts.

Source: GAO’s analysis of 1990 Census data.

**Geographic
Dispersion of Tracts
That Meet Both the
Poverty and
Unemployment
Criteria of H.R. 3865**

Tracts that meet both the poverty and unemployment criteria of H.R. 3865 are located in all 50 states, the District of Columbia, and 1,373 counties (out of 3,141). Figure 1 shows the dispersion of eligible tracts among counties throughout the United States. Counties that include qualifying tracts are shaded according to the number of persons in all qualifying tracts in a county.

Figure 1: Counties With Census Tracts That Meet the Poverty and Unemployment Criteria of H.R. 3865



Note: White areas represent counties in which there were no census tracts that met the criteria.

Source: GAO's analysis of 1990 Census data.

Lessons Learned From the Early Implementation of Empowerment Zones

Information we obtained from participants in the urban EZ program about factors that helped or hindered program planning and implementation are useful as “lessons learned” for future community development programs, such as proposed in H.R. 3865.

As part of our report on the status of urban EZs, we surveyed 32 federal, state, and local officials who were involved in the planning and implementation of the EZ/EC program and asked them to indicate the extent to which a broad set of factors had helped or hindered the program’s implementation. Among those we surveyed were EZ directors and

governance board members, state officials, contractors who provided day-to-day assistance to the EZs, and HUD and Department of Health and Human Services employees. While the survey respondents' views cannot be generalized to the entire EZ/EC program, they are useful in understanding how such a program can be improved.

In the 27 surveys that were returned to us, the following five factors were identified by more than half of the survey respondents as having helped them implement the EZ program:

- community representation on the EZ governance boards,
- enhanced communication among stakeholders,
- assistance from HUD's contractors (called generalists),⁷
- support from the city's mayor, and
- support from White House and Cabinet-level officials.

Similarly, the following six factors were frequently identified by survey respondents as having hindered their efforts to implement the EZ program:

- difficulty in selecting an appropriate governance board structure,
- the additional layer of bureaucracy created by the state government's involvement,
- preexisting relationships among EZ stakeholders,
- pressure for quick results from the media,
- the lack of federal funding for initial administrative activities, and
- pressure for quick results from the public and private sectors.

In closing, Mr. Chairman, our analysis shows that areas throughout the nation, both urban and rural, could be part of the "renewal communities" envisioned in the American Community Renewal Act of 1998. Some of these areas are also part of designated EZs or ECs. In addition, our prior report on the EZ program⁸ shows lessons learned that may be applicable to the implementation of other community development programs.

Mr. Chairman, this concludes our prepared remarks. We will be pleased to respond to any questions that you or other Members of the Committee might have.

⁷Generalists were private-sector community development specialists who acted as liaisons to specific communities within a geographical area. They provided the EZs and ECs with a single point of access to various types of technical assistance, provided information about federal programs and private-sector initiatives, and fostered community involvement in implementing strategic plans.

⁸[GAO/RCED-97-21](#)

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