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## Testimony

Before the Subcommittee on Oversight, Committee on  
Ways and Means, House of Representatives

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For Release  
on Delivery  
Expected at  
10 a.m. EST  
Tuesday  
October 28, 1997

# COMMUNITY DEVELOPMENT

## The Federal Empowerment Zone and Enterprise Community Program

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Madam Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the Empowerment Zone and Enterprise Community (EZ/EC) program. This 10-year program is one of the most recent federal efforts to help our nation face the challenge of revitalizing its deteriorating urban and rural communities. The program targets federal grants to distressed urban and rural communities for community redevelopment and social services and provides tax and regulatory relief to attract or retain businesses in distressed communities.

As you requested, our statement today is based primarily on our December 1996 report,<sup>1</sup> which focuses on the six urban empowerment zones. That report discusses, among other things, (1) the status of the program's implementation in the six urban empowerment zones, which are located in Atlanta, Baltimore, Chicago, Detroit, New York, and Philadelphia-Camden (a bistate zone); (2) the factors that program participants believe have either helped or hindered efforts to carry out the program; and (3) the plans for evaluating the program.

In summary, we found the following:

- All six of the urban EZs had met the criteria defined in the program's authorizing legislation, developed a strategic plan, signed an agreement with the Department of Housing and Urban Development (HUD) and their respective states for implementing the program, signed an agreement with their states for obtaining funds, drafted performance benchmarks, and established a governance structure. However, the EZs differed in their geographic and demographic characteristics, reflecting the selection criteria in the authorizing legislation.
- Many officials involved in implementing the program generally agreed on factors that had either helped or hindered their efforts. For example, factors identified as helping the program's implementation included community representation within the governance structures and enhanced communication among stakeholders. Similarly, factors identified as hindering the program's implementation included preexisting relationships among EZ stakeholders and pressure for quick results.
- From the beginning, the Congress and HUD made evaluation plans an integral part of the EZ program by requiring each community to identify in its strategic plan the baselines, methods, and benchmarks for measuring the success of its plan. However, the measures being used generally

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<sup>1</sup>Community Development: Status of Urban Empowerment Zones (GAO/RCED-97-21, Dec. 20, 1996).

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describe the amount of work that will be produced (outputs) rather than the results that are anticipated (outcomes).

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## Background

In August 1993, the Congress enacted the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993, P.L. 103-66), which established the EZ/EC program. The act specified that an area to be selected for the program must meet specific criteria for characteristics such as geographic size and poverty rate and must prepare a strategic plan for implementing the program. The act also authorized the Secretary of Housing and Urban Development and the Secretary of Agriculture to designate the EZs and ECs in urban and rural areas, respectively; set the length of the designation at 10 years; and required that nominations be made jointly by the local and state governments.

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 EZ program. The use of SSBG funds was expanded to cover a range of economic and social development activities. Like other SSBG funds, the funds allotted for the EZ program are granted by the Department of Health and Human Services (HHS) to the state, which is fiscally responsible for the funds.<sup>2</sup> HHS' regulations covering block grants (45 C.F.R. part 96) provide maximum fiscal and administrative discretion to the states and place full reliance on state law and procedures. HHS has encouraged the states to carry out their EZ funding responsibilities with as few restrictions as possible under the law. After the state grants the funds to the EZ or the city, the EZ can draw down the funds through the state for specific projects over the 10-year life of the program.

The Clinton administration announced the EZ/EC program in January 1994. The federal government received over 500 nominations for the program, including 290 nominations from urban communities. On December 21, 1994, the Secretaries of Housing and Agriculture designated the EZs and

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<sup>2</sup>SSBG typically funds state governments for social service activities. The amount of each state's grant from HHS is based on an allotment formula specified in title XX of the Social Security Act.

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ECS.<sup>3</sup> All of the designated communities will receive federal assistance; however, as established by OBRA 1993, the EZs are eligible for more assistance through grants and tax incentives than the ECSs.

After making the designations, HUD issued implementation guidelines describing the EZ/EC program as one in which (1) solutions to community problems are to originate from the neighborhood up rather than from Washington down and (2) progress is to be based on performance benchmarks established by the EZs and ECSs, not on the amount of federal money spent. The benchmarks are to measure the results of the activities described in each EZ's or EC's strategic plan.

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## Status of the Program in the Six Urban EZs

When we issued our December 1996 report, all six of the urban EZs had met the criteria defined in OBRA 1993, developed a strategic plan, signed an agreement with HUD and their respective states for implementing the program, signed an agreement with their states for obtaining the EZ/EC SSBG funds, drafted performance benchmarks, and established a governance structure. However, the EZs differed in their geographic size, population, and other demographic characteristics, reflecting the selection criteria. In addition, the local governments had chosen different approaches to implementing the EZ program. Atlanta, Baltimore, Detroit, New York, and Camden had each established a nonprofit corporation to administer the program, while Chicago and Philadelphia were operating through the city government.

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

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<sup>3</sup>The Secretaries designated a total of 104 EZs and ECs—6 urban EZs, 3 rural EZs, 65 urban ECs, and 30 rural ECs. Each urban EZ was allocated \$100 million, each rural EZ was allocated \$40 million, and each EC was allocated just under \$3 million in EZ/EC SSBG funds for use over the 10-year life of the program. In addition, businesses located in an EZ would be eligible for tax credits on wages paid to employees who live in the EZ and increased deductions for depreciation. Both EZs and ECs could use tax-exempt state and local bonds. HUD's Secretary also designated six communities as Supplemental Empowerment Zones and Enhanced Enterprise Communities. Unlike the other EZs and ECs, these communities each received grants through HUD's Economic Development Initiative (EDI). The supplemental zones, located in Los Angeles and Cleveland, received EDI grants of \$125 million and \$87 million, respectively. The enhanced communities, located in Oakland, Boston, Kansas City, and Houston, each received EDI grants of \$22 million. Except for Los Angeles, all of these communities also received the \$3 million in EZ/EC SSBG funds as ECs.

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Each urban EZ also has planned diverse activities to meet its city's unique needs. All of them have planned activities to increase the number of jobs in the EZ, improve the EZ's infrastructure, and provide better support to families. However, the specific activities varied, reflecting decisions made within each EZ. According to HUD, the EZs had obligated over \$170 million as of November 1996. However, the definition of obligations differed. For example, one EZ defined obligations as the amount of money that had been awarded under contracts. Another EZ defined obligations as the total value of the projects that had been approved by the city council, only a small part of which had been awarded under contracts. As of September 30, 1997, the six EZs had drawn down about \$30 million from the EZ/EC SSBG funds for administrative costs, as well as for specific activities in the EZs.

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## Participants' Views on the EZ Program

We interviewed participants in the urban EZ program and asked them to identify what had and had not gone well in planning and implementing the program. Our interviews included EZ directors and governance board members, state officials involved in drawing down the EZ/EC SSBG funds, contractors who provided day-to-day assistance to the EZs, and HUD and HHS employees. Subsequently, we surveyed 32 program participants, including those we had already interviewed, and asked them to indicate the extent to which a broad set of factors had helped or hindered the program's implementation. While the survey respondents' views cannot be generalized to the entire EZ/EC program, they are useful in understanding how to improve the current EZ program.

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 plan and implement the EZ program:

- community representation on the EZ governance boards,
- enhanced communication among stakeholders,
- assistance from HUD's contractors (called generalists),<sup>4</sup>
- 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 constrained their efforts to plan and implement the EZ program:

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<sup>4</sup>Generalists 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.

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- 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.

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## Program Evaluation Efforts Could Be Improved

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

Furthermore, HUD's implementation guidelines required each EZ to measure the results of its plan by defining benchmarks for each activity in the plan. HUD intended to track performance by (1) requiring the EZs to report periodically to HUD on their progress in accomplishing the benchmarks established in their strategic plans and (2) commissioning third-party evaluations of the program. HUD stated that information from the progress reports that the EZs prepare would provide the raw material for annual status reports to HUD and long-term evaluation reports.<sup>5</sup> HUD reviews information on the progress made in each EZ and EC to decide whether to continue each community's designation as an EZ or an EC.

At the time that we issued our December 1996 report, all six of the urban EZs had prepared benchmarks that complied with HUD's guidelines and described activities that they had planned to implement the program. In most cases, the benchmarks indicated how much work, often referred to

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<sup>5</sup>HUD's Office of Community Planning and Development awarded a contract for the first annual status reports on each EZ and the Office of Policy Development and Research awarded a separate contract for long-term evaluations of the overall program. The first annual status report was publicly released in March 1997. The two long-term evaluation reports are scheduled for completion on the program's 5- and 10-year anniversaries in 1999 and 2004.

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as an output, would be accomplished relative to a baseline. For example, a benchmark for one EZ stated that the EZ would assist businesses and entrepreneurs in gaining access to capital resources and technical assistance through the establishment of a single facility called a one-stop capital shop. The associated baseline was that there was currently no one-stop capital shop to promote business activity. The performance measures for this benchmark included the amount of money provided in commercial lending, the number of loans made, the number of consultations provided, and the number of people trained.

Also by December 1996, HUD had (1) defined the four key principles, which serve as missions and goals for the EZs; (2) required baselines and performance measures for benchmarks in each EZ to help measure the EZ's progress in achieving specific benchmarks; and (3) developed procedures for including performance measures in HUD's decision-making process. However, the measures being used generally described the amount of work that would be produced (outputs) rather than the results that were anticipated (outcomes). For example, for the benchmark cited above, the EZ had not indicated how the outputs (the amount of money provided in commercial lending, the number of loans made, the number of consultations provided, and the number of people trained) would help to achieve the desired outcome (creating economic opportunity, the relevant key principle). To link the outputs to the outcome, the EZ could measure the extent to which accomplishing the benchmark increased the number of businesses located in the zone. Without identifying and measuring desired outcomes, HUD and the EZs may have difficulty determining how much progress the EZs are making toward accomplishing the program's overall mission.

HUD officials agreed that the performance measures used in the EZ program were output-oriented and believed that these were appropriate in the short term. They believed that the desired outcomes of the EZ program are subject to actions that cannot be controlled by the entities involved in managing this program. In addition, the impact of the EZ program on desired outcomes cannot be isolated from the impact of other events. Consequently, HUD believed that defining outcomes for the EZ program was not feasible.

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## Conclusions

Concerns about the feasibility of establishing measurable outcomes for programs are common among agencies facing this difficult task. However, because HUD and the EZs have made steady and commendable progress in



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establishing an output-oriented process for evaluating performance, they have an opportunity to build on their efforts by incorporating measures that are more outcome-oriented. Specifically, HUD and the EZs could describe measurable outcomes for the program's key principles and indicate how the outputs anticipated from one or more benchmarks will help achieve those outcomes. Unless they can measure the EZs' progress in producing desired outcomes, HUD and the EZs may have difficulty identifying activities that should be duplicated at other locations. In addition, HUD and the EZs may not be able to describe the extent to which the program's activities are helping to accomplish the program's mission.

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

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