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Renewal Communities Initiative: Background and Overview

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Summary

With the January 2002 designation of 40 areas located in some 20 states,[1] the Renewal Communities (RC) Initiative (P.L. 106-554) has taken on concrete form. The concept of Renewal Communities, whose origins may be seen as stretching back more than two decades, nevertheless represents a major new economic development initiative. And, as with the Empowerment Zone/Enterprise Communities (EZ/EC) Program (P.L. 103-66) enacted in 1993, the RC Initiative combines tax credits and other provisions designed to revive some of the nation's more impoverished areas. In important respects, however, the two programs employ different means to achieve similar goals. This report will be updated as events warrant.

Background

During most of the nation's history, two key factors led to limited interaction between federal and municipal governments. First, citizen expectations—and hence, the policy responsibilities—of these entities have varied greatly. The federal government concerned itself with such national policies as defense and international affairs, while cities focused on providing local services. Second, there was no direct legal connection between them. Legally, cities—as with other units of local government—are creatures of the states. Thus, until the mid-20th century, cities interacted almost exclusively with their states or other local governments, not with the federal government.

Beginning in the 1950s, however, the relationship between the federal government and cities changed dramatically. Particularly since the mid-1960s, the federal government has undertaken various initiatives designed to help revive distressed areas, e.g., the Economic Opportunity Act of 1964 (a centerpiece of the War on Poverty), Community Action Program, Model Cities, etc. In enacting these programs, Congress explicitly recognized that the national government had a role to play in what are ostensibly local economic development concerns.

[1] A listing of the 40 RCs (28 urban and 12 rural) appears on page 6 of this report.

Both the federal government's evolving role and its approach in helping distressed urban communities—as well as rural areas—are exemplified by the Empowerment Zone/Enterprise Communities (EZ/EC) program.[2] Enacted by the 103rd Congress, the EZ/EC program differs from previous efforts in several key respects, including: a competition to determine designated areas, the autonomy given to EZs and ECs in decision making, the promotion of so-called market-based economic development, and the program's comprehensiveness.

Conceptually, the EZ/EC program had its genesis with enterprise zone programs initiated in the United Kingdom in the 1980s and subsequently championed in this country by Jack Kemp, among others, while both a Member of the House of Representatives and the Secretary of Housing and Urban Development during the Bush Administration. The concept originally emphasized various tax incentives and efforts to make it easier for private businesses to operate by eliminating such impediments as restrictive zoning laws and certain other governmental regulations.

The Administration proposed a New Markets Initiative in June 1999 containing many of the elements that were incorporated in the Consolidated Appropriations Act (P.L. 106-554). The Renewal Communities part of the new law, on the other hand, has roots that run even deeper. Representative J. C. Watts introduced the forerunner of the RC Initiative in the 104th Congress with "Save Our Children: The American Community Renewal Act of 1996" (H.R. 3467). That legislation was much broader in scope, including several controversial provisions dealing with school vouchers, low-income educational opportunity scholarships, and family development accounts.

Brief Legislative History

At a joint appearance in Chicago in December 1999, President Clinton and House of Representatives Speaker Dennis Hastert promised to work together to develop a bipartisan legislative initiative which would provide tax credits and investment guarantees designed to draw equity capital into some of the nation's more impoverished areas. In May 2000, the President and the Speaker announced an agreement on the basics of a Renewal Communities and New Markets (RC/NM) initiative. Following two months of negotiations over the specific language of the initiative, H.R. 4923 was introduced on July 24 and passed by the House under suspension of the rules the following day.

Two bills (S. 2779 and S. 2936) differing from each other and from H.R. 4923—but containing similar core elements—were introduced in the Senate on June 22 and July 26, respectively; neither received consideration. Then, on October 3, Senate Finance Committee Chairman Senator William Roth introduced his community renewal initiative (S. 3152), following several unsuccessful attempts to get committee members to agree to limit amendments to his chairman's mark.[3] The 10-year, $38.7 billion proposal contained

[2] For more information on the program, see CRS Report RS20381, *Empowerment Zone/Enterprise Communities Program: Overview of Rounds I, II, and III,* by Bruce K. Mulock.

[3] The technical explanation of S. 3152, the "Community Renewal and New Markets Act of 2000," prepared by the staff of the Joint Committee on Taxation, is available at:

(continued...)

key provisions not contained in the House-approved version, as well as provisions generally similar to those found in H.R. 4923.

Despite a threatened veto by President Clinton, on October 26 the House passed legislation (H.R. 2614) that contained a host of far-reaching tax proposals, including a freshly crafted Renewal Communities/New Markets initiative. The new RC/NM initiative comprised Title VI ("Community Revitalization") of "The Taxpayer Relief Act of 2000" (H.R. 5542), which was added to an unrelated conference report on a nontax bill (H.R. 2614, "The Certified Development Company Program Improvement Act of 2000") that emerged from the House Small Business Committee.

In general, the conference agreement supported by House and Senate GOP negotiators follows the provisions of H.R. 4923.[4] A few provisions contained in S. 3152 were also included, and the negotiators added several provisions that had not been contained in any of the previous RC/NM bills.

As the legislation moved through the Congress, some depicted the various RC/NM bills as ones that *combined* various elements favored by the Clinton Administration and congressional Republicans; it may be more accurate to say, however, these bills *included* such elements. Months of negotiations and several legislative iterations did little to achieve compromise, except both sides agreed to go forward with proposals that contained approaches they favored, as well as ones they disliked.

On December 15, 2000, at the end of the post-election session, the 106th Congress—as part of the Consolidated Appropriations Act (CAA) of 2001 (P.L. 106-554; 114 Stat. 2763-64)—passed the Community Renewal Tax Relief Act of 2000 (H.R. 5662).[5] (The CAA also included the New Markets Venture Capital (NMVC) Program Act of 2000, H.R. 5663.)[6] President Clinton signed the legislation on December 21, 2000.

Selection Criteria

Renewal Community designations were awarded to 40 competitively selected communities that met certain criteria demonstrating economic distress.[7] The Act required

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[3] (...continued)
[http://www.house.gov/jct/].

[4] President Clinton, in an October 26, 2000 letter to Speaker Hastert, wrote that he could not support the final version of the tax bill (H.R. 2614) because it was "a partisan legislative package" developed "without any consultation with me or congressional Democrats."

[5] Provisions dealing with Empowerment Zones were included in H.R. 5662, the Community Renewal Tax Relief Act of 2000, as enacted into law by Section 1(a)(7) of H.R. 4577.

[6] NMVC program provisions were included in H.R. 5663, as enacted into law by Section 1(a)(8) of H.R. 4577.

[7] In order for an area to be designated as a renewal community, state and local governments were required to submit a written course of action in which the state and local governments promised to take at least four of the following governmental actions within the nominated area: (1) a reduction of tax rates or fees; (2) an increase in the level of efficiency of local services; (3) crime
(continued...)

that at least 12 of the RCs be in rural areas. Unlike the EZ/EC program competition, however, designations as renewal communities were based on a ranking of three eligibility factors, with those areas having the highest average ranking winning designations.[8]

The Secretary of HUD was required to publish regulations describing the nomination and selection process by April 21, 2001. Designations of RCs were to be announced no later than December 31, 2001; in fact, however, the designation announcements were completed on January 24, 2002. The designation of an area as an RC generally will be effective through December 31, 2009.

To win designation, a nominated area was required to meet the following criteria: (1) each census tract had a poverty rate of at least 20 %; (2) in the case of an urban area, at least 70 % of households had incomes below 80 % of the median income of households within the local government jurisdiction; (3) the unemployment rate was at least 1.5 times the national unemployment rate; and (4) the area was one of pervasive poverty, unemployment, and general distress. Those areas with the highest average ranking of eligibility factors (1), (2), and (3) above were designated as RCs.

There were no geographic size limitations placed on RCs. Instead, the boundary of an RC had to be contiguous. In addition, the RC had to have a minimum population of 4,000 if the community was located within a metropolitan statistical area (at least 1,000 in all other cases), and a maximum population of not more than 200,000. The population limitations did not apply to any RC that was entirely within an Indian reservation.

Empowerment Zones and Enterprise Communities seeking designation were given preference. Specifically, with respect to the first 20 designations of nominated areas as RCs, preference was given to nominated areas that were EZs or ECs and that otherwise met the requirements for an RC. An EZ or EC could apply for designation as an RC; in instances where RC designations were granted, EZ and EC designations ceased.[9]

Major Provisions

The 2000 Community Renewal Tax Relief Act established the Renewal Community Initiative, which was designed to encourage public-private collaboration to generate economic development in 40 distressed communities. These newly designated RCs can take advantage of federal wage credits, tax deductions, capital gains exclusions, and bond

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[7] (...continued)
reduction strategies; (4) actions to remove or streamline governmental requirements; (5) involvement by private entities and community groups, such as to provide jobs and job training and financial assistance; and, (6) the gift (or sale below fair market value) of surplus realty by the state or local government to community organizations or private companies.

[8] In the EZ/EC program, designations were based on the quality of the areas “strategic plans,” the areas having met minimum thresholds for poverty and unemployment.

[9] By the same token, the Secretaries of HUD and Agriculture are authorized to designate a replacement EZ or EC for each EZ or EC that becomes an RC. The replacement EZ or EC will be required to have substantially the same urban or rural character as the EZ or EC that it is replacing.

financing to stimulate economic development and job growth. Each incentive is tailored to meet the particular needs of a business and offers a significant inducement for companies to locate and hire additional workers.

Tax Credits

- *Wage credits* are especially attractive to businesses looking to grow. These businesses are able to hire and retain Renewal Community residents and apply the credits against their federal tax liability. Businesses operating in an RC will enjoy up to a $1,500 federal credit for every newly hired or existing employee who lives and works in the RC.
- *Work Opportunity Credits* provide businesses in a Renewal Community with up to $2,400 against their federal tax liability for each employee hired from groups with traditionally high unemployment rates or other special employment needs, including youth who live in the RC.
- *Welfare to Work Credits* offer RC businesses a two-year federal credit of up to $3,500 for the first year, and $5,000 for the second year, for each newly hired long-term welfare recipient.

Tax Deductions

- *Commercial Revitalization Deductions* permit a state with one or more RCs to allocate up to $12 million in deductions per RC per year (not more than $10 million per project) for commercial or industrial buildings developed in the RCs. Businesses that construct or rehabilitate commercial property in RCs can deduct a portion of the costs over a shorter period of time than permitted under standard depreciation rules.
- *Section 179 Deductions* under the tax code allow a qualified Renewal Community business to expense up to $35,000 of additional qualified property such as equipment and machinery acquired each year during the period of the RC designation, 2002 through 2009.
- *Environmental Cleanup Cost Deductions* allow businesses to deduct qualified cleanup costs in Brownfields.

Capital Gains Exclusions

- *Zero Percent Capital Gains Rate* applies to an interest in, or property of, certain businesses operating in a Renewal Community, if the asset is acquired during the period of the RC designation and held for at least five years.

Bond Financing

- *Qualified Zone Academy Bonds* allow state and local governments to match no-interest loans with private funding sources to finance public school renovations and programs.[10]

[10] For more information, see CRS Report RS20606, *Qualified Zone Academy Bonds: A*
(continued...)

Other Incentives

- Like all distressed communities, Renewal Communities will also be able to take advantage of the *New Markets Tax Credits* that provide investors with a credit against their federal taxes of 5 to 6 % of the amount invested in a distressed area. Also available to Renewal Communities is the *Low-Income Housing Tax Credit*[11] providing credit against federal taxes for owners of newly constructed or renovated rental housing.

Designated Renewal Communities	
Atlanta, GA	Memphis, TN
Black Belt Counties, AL	Milwaukee, WI
Buffalo, NY	Mobile, AL
Burlington, VT	New Orleans, LA
Camden, NJ	Newark, NJ
Central Louisiana	Niagara Falls, NY
Charleston, SC	Northern Louisiana
Chattanooga, TN	Orange Cove, CA
Chicago, IL	Ouachita Parish, LA
Corpus Christi, TX	Parlier, CA
Detroit, MI	Philadelphia, PA
Eastern Kentucky	Rochester, NY
El Paso, TX	San Diego, CA
Flint, MI	San Francisco, CA
Greene-Sumter County, AL	Schenectady, NY
Hamilton, OH	Tacoma, WA
Jamestown, NY	Turtle Mountain Band of Chippewa, ND
Lawrence, MA	West Central Mississippi
Los Angeles, CA	Yakima, WA
Lowell, MA	Youngstown, OH

[10] (...continued)
Description of Tax Credit Bonds, by Steven Maguire.

[11] For more information, see CRS Report RL30916, *Housing Issues in the 107th Congress*, by Richard E. Bourdon.