Briefing to the Subcommittees on Transportation, Housing and Urban Development, and Related Agencies Committees on Appropriations

ECONOMIC DEVELOPMENT: Status of Recommendations on Empowerment Zones and Other Selected Community Investment Initiatives

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Introduction

- The Joint Explanatory Statement accompanying the Department of Housing and Urban Development fiscal year 2022 appropriations includes a provision for us to review the long-standing recommendations on Empowerment Zones.
- We have previously reported that Empowerment Zones and Enterprise Communities (federal revitalization programs) used their grant funds to implement a wide range of community and economic development initiatives to revitalize impoverished urban and rural communities. We also found limitations with available program data and how the programs were monitored and administered. We have made recommendations and observations related to improving the programs since 2004.

Background

- The Omnibus Budget Reconciliation Act of 1993 established the Empowerment Zone (EZ)/Enterprise Community (EC) programs. It authorized six urban and three rural Round I EZs, and 65 urban and 30 rural Round I ECs. Subsequent legislation in 1997, 1998, and 2000 authorized additional Round I, II, and III EZs, more ECs, and Renewal Communities (RCs).
- EZs assisted economically distressed communities through grants and tax incentives.
- The grants and tax incentives were generally available from 1993 to 2009 and intended to stimulate community development and business activity. However, there were extensions for the tax incentives.
- Four federal agencies oversaw EZs.
  - Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture (USDA) oversaw urban and rural EZs, respectively; designation of EZs; implementation of the program; and tracking of program performance.
  - Department of Health and Human Services (HHS) administered grants for Round I EZs.
  - IRS was responsible for administering the tax benefits available under EZs.
- The Community Renewal Tax Relief Act of 2000 mandated that GAO report to Congress in 2004, 2007 (the report came out in 2006), and 2010 on the EZ/EC and RC programs.

Objectives

- This report addresses
  1) The key findings from our previous reports on EZs and
  2) The status of our previous recommendations related to program administration and the collection of data on EZs and other tax incentives with community investment and redevelopment goals.

Scope and Methodology

- Reviewed our previous reports on EZs, tax expenditures and other place-based initiatives.
- For those reports, we:
  - reviewed relevant documents and interviewed officials from HHS, HUD, IRS, and USDA;
  - surveyed the most recently designated EZs and RCs; and
  - performed fieldwork at selected urban and rural EZ and RC locations.
- To review the status of recommendations, we reviewed GAO's result phase system database and prior reports.

Objective 1: Empowerment Zone 2004 report (GAO-04-306)

Key Findings

- The EZ/EC and RC programs shared the goal of improving conditions in distressed communities by reducing unemployment and fostering development in designated areas. There were differences across the programs, such as available grant funding and tax incentives offered.
- The report provided information on progress of grant obligations being spent but highlighted the limited data collected on the use of program benefits.
- Few EZ/EC evaluations had been conducted.

Objective 1: Empowerment Zone 2004 report (GAO-04-306) (cont)

Recommendations

- HUD, USDA, and IRS should facilitate the administration, audit, and evaluation of the EZ/EC and RC programs by collaborating to (1) identify the data needed to assess the use of the tax benefits and the various means of collecting such data; (2) determine the cost effectiveness of collecting these data, including the potential impact on taxpayers and other program participants; (3) document the findings of their analysis; and, if necessary, (4) seek the authority to collect the data, if a cost-effective means is available.
- The three agencies generally agreed with the 2004 report recommendations. In response, from 2004 to 2006, the three agencies discussed options for collecting additional data on tax benefits and determined two methods for doing so: a national survey and changes to tax forms. The three agencies were unable to agree on a cost-effective method for collecting the additional data and did not seek authority to collect the data.
- Status: *Open – Partially Addressed*. Without more detailed data and with the extension of the Empowerment Zone designation until 2025, the agencies and others cannot tie the use of tax benefits to particular communities because the information collected on tax forms does not allow them to do so.

Objective 1: Empowerment Zone 2006 report (GAO-06-727)

Key Findings

- Round I EZs/ECs used their grant funds to implement a wide range of program activities.
- The Round I EZs/ECs program design likely contributed to challenges in monitoring the programs:
  - Designated communities had flexibility in using program funds and used states as pass-through entities to receive funds.
  - Design of program also aimed to limit reporting requirements for states and localities.
  - Lack of data on how program funds were used and detailed tax data made it difficult to assess the use of program tax benefits.
- EZs/ECs showed some improvements related to poverty and unemployment, but the analysis did not definitively link these changes to the program.

Observations (no recommendations in report)

- Round I program oversight was limited because HHS, HUD, and USDA did not collect data on how the funds were used. In addition, additional guidance to state and local entities could have assisted with program monitoring requirements.
- Program offered flexibility in how communities could use funds. However, limited data and inconsistent monitoring hindered federal oversight.

Objective 1: Empowerment Zone 2010 report (GAO-10-464R)

Key Findings (no recommendations in report)

- **Features of the EZ/EC and RC programs:**
  - In general, programs were designed to reduce unemployment and generate economic growth. Early rounds provided grant funds, but later rounds primarily offered tax incentives. Early rounds of EZ/EC targeted community development and large business projects, while RCs targeted small and medium-sized business projects.
- **Information available on programs:**
  - Report reiterated earlier findings that general information on the use of tax benefits was available but information at the EZ/EC/RC level was limited.
  - For example, information on employment credits could not be broken down to conclusively show their use in specific EZ/RC areas.
  - Changes in available census data provided more information on poverty and other economic variables at a more local level, through the Census Bureau's Annual Community Survey.

Objective 2: Other GAO reports related to tax expenditures and data collection (GAO-13-167SP)

- According to GAO's framework for evaluating tax expenditures, the responsible program agencies should determine what data should be collected to evaluate tax expenditures relevant to their agency goals.
- The data agencies need to evaluate a tax expenditure depend on the questions being asked about the tax expenditure. Data needed to determine if the tax expenditure is achieving its intended purpose may differ from data needed to evaluate broader issues.
- IRS collects some tax expenditure data reported on tax returns and other tax forms. However, to minimize its workload and the burden on taxpayers, IRS collects only the information needed to know the correct amount of taxes owed. As such, existing IRS data may not be sufficient for evaluating the efficiency, equity, and other effects of a tax expenditure.
- Without information on where the investment is located, little progress can be made in determining how effective the tax expenditure is in promoting the goals of the incentive. Agencies need to plan sufficiently so the data collected are available in time to conduct an evaluation.

Objective 2: Other GAO reports related to tax expenditures and data collection – New Market Tax Credits

- The Community Renewal Tax Relief Act of 2000 established the New Markets Tax Credit (NMTC) to encourage investment in low-income communities. The NMTC provides investors with a tax credit for investing in Community Development Entities that are to invest the proceeds in qualified low-income community investments.

Objective 2: Other GAO reports related to tax expenditures and data collection – New Market Tax Credits (GAO-04-326)

Key Findings

- The Community Developmental Financial Institutions (CDFI) Fund and IRS had not finalized how to use data to monitor compliance. Agency officials did not have schedules or documented plans for timely compliance monitoring.

Recommendations

- CDFI Fund and IRS should collaborate to implement their NMTC compliance program.
- Status: *Closed – Implemented.*

Objective 2: Other GAO reports related to tax expenditures and data collection – New Market Tax Credits (GAO-07-296)

Key Findings

- IRS and the CDFI Fund had taken steps to monitor compliance with the requirements of the NMTC program, but they were not collecting data that would allow IRS to identify credit claimants and amounts to be claimed.
- Neither IRS nor the CDFI Fund had sufficient information to enable IRS to identify NMTC investors and the amount of credit that the investors are entitled to claim, particularly when the original investments are sold to others.

Selected Recommendation

- IRS should work with the CDFI Fund to further explore options for cost effectively monitoring investor compliance.
- Status: *Closed –Implemented.*

Objective 2: Other GAO reports related to tax expenditures and data collection – New Market Tax Credits (GAO-10-334)

Key Findings

- Limited available data made it difficult to isolate project impacts.
- CDFI Fund collected data about outcomes associated with NMTC-funded projects, but it was difficult to establish causal links between NMTC-related financing and these reported project outcomes.
- We were unable to determine the extent to which any economic development in the communities receiving the NMTC investment would have occurred if the NMTC program did not exist.

Selected Recommendation

- CDFI Fund Director should collect additional data on program performance and improve project-level data.
- Status: *Closed – Implemented*

Objective 2: Other GAO reports related to tax expenditures and data collection – Opportunity Zones (GAO-21-30)

The 2017 Tax Cuts and Jobs Act established the Opportunity Zones incentive to spur investment in distressed communities. Investors who invest in Qualified Opportunity Funds—which in in turn invest in qualified property (low-income communities) or businesses—could receive significant tax-related benefits.

Key Findings

- An agency was not designated with responsibility to collect data, evaluate, and report on the Opportunity Zone incentive's performance.

Selected Matter for Congressional Consideration

- Congress should consider giving Treasury the authority and responsibility to collect data and report on the incentive's performance, in collaboration with other federal agencies.
- Status: *Open*

Objective 2: Other GAO reports related to tax expenditures and data collection – Opportunity Zones (GAO-22-104019)

Key Findings

- IRS has developed plans to ensure that OZ investments/investors comply with the tax incentive's requirements. However, these plans depend on data that are not readily available for analysis.

Recommendations

- IRS should (1) assess the risks that data limitations pose to its OZ tax incentive compliance plan and (2) research compliance risks posed by high-wealth individuals and large partnerships that are using OZ tax incentives.
- Status: *Open*

Related GAO Products

Empowerment Zones

- GAO-10-464R *Revitalization Programs: Empowerment Zones, Enterprise Communities, and Renewal Communities*
- GAO-06-727 *Empowerment Zone and Enterprise Community Program: Improvements Occurred in Communities, but the Effect of the Program is Unclear*
- GAO-04-306 *Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited*

New Markets Tax Credit

- GAO-10-334 *New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could be Simplified*
- GAO-07-296 *Tax Policy: New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance*
- GAO-04-326 *New Markets Tax Credit Program: Progress Made in Implementation, but Further Actions Needed to Monitor Compliance*

Related GAO Products (continued)

Opportunity Zones

- GAO-22-104019 *Opportunity Zones: Census Tract Designations, Investment Activities, and IRS Challenges Ensuring Taxpayer Compliance*
- GAO-21-30 *Opportunity Zones: Improved Oversight Needed to Evaluate Tax Expenditure Performance*

Other

- GAO-13-167SP *Tax Expenditures: Background and Evaluation Criteria and Questions*
- GAO-12-819 *Entrepreneurial Assistance: Opportunities Exist to Improve Programs' Collaboration, Data-Tracking, and Performance Management*
- GAO-12-262 *Community Development: Limited Information on the Use and Effectiveness of Tax Expenditures Could Be Mitigated through Congressional Attention*
- GAO-11-318SP *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*