



**House  
Legislative  
Analysis  
Section**

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**EMPOWERMENT ZONES AND  
ENTERPRISE COMMUNITIES**

**House Bill 4730 as enrolled  
Public Act 75 of 1995  
Sponsor: Rep. Carolyn Kilpatrick**

**Senate Bill 539 as enrolled  
Public Act 123 of 1995  
Sponsor: Sen. Dave Honigman**

**House Committee: Urban Policy  
Senate Committee: Local, Urban and State  
Affairs  
Second Analysis (8-8-95)**

***THE APPARENT PROBLEM:***

The Clinton Administration's effort to address urban and rural redevelopment in distressed areas was launched with enactment of the Omnibus Budget Reconciliation Act of 1993. A competitive application process ensued as communities across the nation vied for selection as an Empowerment Zone (EZ) or Enterprise Community (EC). At stake was \$100 million in federal block grants for EZ designations, \$2.95 million for EC designations, and various tax initiatives and incentives. Applications included submitting a strategic plan setting forth goals, demonstrating strong relationships between the local government and private sector, and stating how the plan would combine resources from federal programs and other sources. A strategic plan was required to include written commitments from the local government and the state that the strategic plan would be adhered to. Key components of the strategic plan were economic opportunity, sustainable community development, community-based partnerships, and strategic vision for change. On December 21, 1994, Detroit was named one of only nine communities to receive EZ designation, with Muskegon/Muskegon Heights, Flint, and Lake County receiving EC designations.

Detroit's two-volume application and strategic plan, entitled "Jumpstarting the Motor City", outlines the plans for the federal grants and also the promise of \$1.9 billion in funds from area banks, businesses, foundations, and government agencies, including \$20 million from Ford, Chrysler, and General Motors to be invested in a development fund created by Detroit Renaissance. In light of the tremendous

undertaking in implementing this strategic plan, the Detroit Empowerment Zone Coordinating Council, the group responsible for Detroit's application and strategic plan, is seeking enabling legislation for the creation of development corporations for the designated communities. Though initially to facilitate the implementation of Detroit's plan, the proposed legislation would be able to serve any designated community.

***THE CONTENT OF THE BILLS:***

House Bill 4730 and Senate Bill 539 would create, respectively, the "Empowerment Zone Development Corporation Act" and the "Enterprise Community Development Corporation Act". The bills would provide authorization for designated communities under the federal empowerment zone and enterprise community (EZ/EC) program to create an empowerment zone or enterprise community development corporation (EZDC/ECDC). House Bill 4730 would also provide for a city with a population of 900,000 or more to establish an empowerment zone coordinating council to develop a strategic plan, incorporate an EZDC, and recommend initial candidates to a board of directors.

House Bill 4730 would specify that an empowerment zone would be an area designated as such by the United States Department of Housing and Urban Development (HUD) and Senate Bill 539 would specify that an enterprise community would be designated by HUD or the Department of

**House Bill 4730 and Senate Bill 539 (8-8-95)**

**Agriculture.** Under both bills, a strategic plan would be a plan agreed to by the state and the municipality for an EZ or EC and would require "certification of the authority to adopt a strategic plan in an application for nomination" as an empowerment zone or enterprise community under applicable federal regulations and a written commitment of the state and municipality to adhere to the plan.

**Legislative finding.** The bills would state that there exists in this state the continuing need for programs to alleviate and prevent long-term unemployment, economic distress, and accompanying social ills. Thus, the bills specify a legislative finding that "it is necessary to empower municipalities to create" empowerment zone and enterprise community development corporations "to facilitate the implementation of municipalities' strategic plans" to stimulate the creation of new jobs and promote the revitalization of distressed areas, and to ensure local oversight of strategic plan implementation.

**Empowerment zone/enterprise community development corporation.** An application to incorporate an EZDC or ECDC under House Bill 4730 and Senate Bill 539 would be made in writing by at least three persons to a municipality's governing body and would include proposed articles of incorporation and by-laws. A governing body could approve an application after holding a public hearing. Approved applications and articles of incorporation would then be filed with the Department of Commerce. A municipality could only approve one corporation.

Under the bills, a municipality would determine, by ordinance, the size and composition of the board of directors of the corporation, and of the executive committee, neighborhood review panels, and necessary subcommittees of the board. The bills would also establish the qualifications, selection process, terms of office, and the method of filling vacancies for the board. For a city with a population of 900,000 or more, 60 percent of the board and executive committee members would be required to live or work in the EZ or EC, with the remaining 40 percent having a substantial interest in the EZ or EC, or being a representative of an organization with a substantial interest in the EZ or EC. ("Substantial interest" is defined as having a demonstrable, substantial interest in, or owning, real property or a business in the EZ or EC, or being active in improving the social and economic

conditions of the EZ or EC, or, for empowerment zones, "making a significant commitment to the empowerment zone by providing financial or in-kind resources" to the definition of "substantial interest".) Elected officials and candidates for elective office would not be eligible to serve on the board. Members of the board of directors and all committees would have to reflect the demographic diversity of the EZ or EC. The corporation would employ an executive director and other necessary staff. Board members would serve without compensation, but would be reimbursed for expenses. Further, board members would be required to disclose conflicts of interest and could not vote on matters in which they had either a direct or indirect financial interest.

**Powers and duties of a corporation.** An empowerment zone or enterprise community development corporation would:

\*\* Coordinate, review, recommend priorities for, monitor, and evaluate the programs of the agencies implementing the strategic plan.

\*\* Acquire and dispose of property necessary to accomplish the purposes of the act.

\*\* Solicit and accept donations, in-kind services, grants, loans, appropriations, or other money from federal, state, local, and private sources for operating expenses.

\*\* Submit periodic progress, financial, and performance reviews, and other necessary reports, to the municipality.

\*\* Modify the strategic plan, with the concurrence of the municipality and except as precluded by federal, state, or local law.

\*\* Possess "all other powers necessary and appropriate" that were not inconsistent with current laws to implement the strategic plan.

The municipality could, by ordinance, assign additional powers to the corporation.

**Powers of eminent domain.** A municipality could institute proceedings under its powers of eminent domain according to state law or local charter in order to accomplish the purposes of the acts. The taking and transfer of public and private property by the municipality for use in a project under an

empowerment zone or enterprise community strategic plan would be done under conditions considered appropriate by the municipality, and would be considered necessary for the benefit of the public.

### **FISCAL IMPLICATIONS:**

The House Fiscal Agency reports that the fiscal impact of House Bill 4730 is indeterminate. No fiscal impact can be estimated until the corporations are created and sources and amounts of funding are identified. For instance, if a corporation is incorporated as a non-profit, then any property it acquires under Section 27, or by any other mechanism, could result in a loss of property tax base to both state and local governments. (7-11-95)

The Senate Fiscal Agency reports that Senate Bill 539 would have no impact on state or local government. (6-22-95)

### **BACKGROUND INFORMATION:**

Public Act 311 of 1994 amended the Enterprise Zone Act to allow for any municipality receiving federal designation as an empowerment zone or enterprise community to be eligible to receive designation as a state enterprise zone. (Previously, eligibility criteria in the act applied only to Benton Harbor, and now the act contains two separate sets of provisions, one set for Benton Harbor and another for enterprise zones created after 1993.) Under the Enterprise Zone Act, qualified (new and existing) businesses receive a five-year exemption from property taxes and pay instead a specific tax that, generally speaking, provides a 50 percent property tax reduction on any increase in the value of their property. (Representatives from Detroit, Muskegon/Muskegon Heights, Flint, and Lake County report that their respective municipalities are currently in the process of applying for state enterprise zone designation.)

### **ARGUMENTS:**

#### **For:**

Detroit, as well as Muskegon/Muskegon Heights, Flint, and Lake County, have earned the opportunity to make use of a substantial grant of federal dollars and authority to revitalize certain depressed areas within their borders. Enabling legislation would guarantee the establishment of local corporations to

oversee creation of and implementation of empowerment zone and enterprise community strategic plans. This would keep oversight within the EZ or EC, giving local people power and voice in their communities as to the development of programs, rather than having programs imposed from those outside of the communities.

#### **Against:**

By granting a quasi-governmental corporation the authority to acquire, hold, lease, or dispose of property it deems necessary to accomplish its goals, and with the ability to make use of the powers of eminent domain held by the municipality, a situation could arise whereby residents of a neighborhood could find themselves displaced as housing costs go up due to redevelopment. The very people the plan is meant to help could find their homes condemned to make room for housing they cannot afford or businesses they will not be able to be employed by. This could lead to increases in the number of homeless and change the ethnic make-up of certain neighborhoods.

#### **Response:**

By design, the empowerment zone and enterprise community concepts include local people at every level of decision-making, so it is unlikely that projects will proceed without neighborhood support.

#### **Against:**

Enabling legislation is not required by the federal guidelines for the empowerment zone/enterprise community program. In fact, representatives from two of the designees--Lake County and Muskegon/Muskegon Heights--report that their communities are not planning at this time on utilizing the Enterprise Community Development Corporation Act provisions under Senate Bill 539 in implementing their strategic plans and administering their federal grants. Rather, they believe the provisions under the state Enterprise Zone Act better fit their needs. Indeed, there are many overlapping provisions between the two acts. For instance, the citizens' council under the Enterprise Zone Act and the development corporation under the Enterprise Community Development Corporation Act share several identical duties, such as advocating the promotion and development of business in the zone.

#### **Response:**

Neither the legislation proposed under House Bill 4730 nor Senate Bill 539 is binding on the federally designated communities. Therefore, a municipality

is free to choose and create their own governance system to implement their strategic plan. However, should provisions under either of the bills prove to be useful in the future, a municipality would then be able to create a development corporation under the provisions of the acts.

According to information supplied by representatives of the four designated municipalities, it would appear that the concept of the development corporation better serves the needs of the urban empowerment zone/enterprise communities than those of their rural counterparts. Indeed, Flint and Detroit believe that the legislation under these acts will give them a power and authority to implement their strategic plans and make better use of grants and tax incentives than they would enjoy under the provisions of the state Enterprise Zone Act alone or other governance plans. For instance, the ability that the bills would afford to be a partner in a business and to buy and sell property would allow the designees to tackle projects and effectuate change to a degree that they otherwise would not be able to accomplish. Also, the development corporation created under the bills would allow for a separate entity, apart from city government, that would have a permanent role in the project, able to effect quality control and protect the core vision of local, community involvement. To Detroit, with \$100 million in grants to be shared among 49 separate projects, an entity such as an empowerment zone development corporation is seen as crucial for the successful implementation of their strategic plan.

***Against:***

According to the Code of Federal Regulations (24 CFR 597), an urban empowerment zone designation is made by the Department of Housing and Urban Development (HUD) and a rural empowerment zone designation is made by the Department of Agriculture. However, the definition of empowerment zone given in House Bill 4730 refers to areas designated as empowerment zones by HUD only. At present, the only empowerment zone in Michigan is an urban area so designated by HUD (Detroit). However, should the federal empowerment zone/enterprise community program be activated in the future and a rural area be designated as a rural empowerment zone by the Department of Agriculture, it may not be covered by the existing definition and so may not be able to enjoy the provisions contained in the act.