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Empowerment Zone Designation and Community Economic Development in Minneapolis, MN.

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MN

Author: Elias Popuch

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Empowerment Zone Designation and Community Economic Development in Minneapolis, MN

Senior Honors Thesis

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May 2009

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Abstract

The Empowerment Zone is a federal program designed to incentivize investment in economically blighted communities. The Empowerment Zone provides a combination of federal grant money for community development initiatives along with tax incentives for private-sector firms that locate in zone areas. This study explores the effects of Empowerment Zone designation on community economic development in Minneapolis, MN. The project employs both quantitative and qualitative methodologies to study the Empowerment Zone. GIS mapping and analysis explores changes in socio-demographic characteristics of Zone neighborhoods. Meanwhile, interviews with community stakeholders and government officials provide insight into the Empowerment Zone planning and implementation process. The Minneapolis Empowerment Zone program was able to bolster community development projects over the course of its existence, but it did not succeed in dramatically improving the employment options of zone residents or in facilitating entrepreneurial growth.

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Chapter I. Introduction

In 1994, the Department of Housing and Urban Development (HUD) introduced the Empowerment Zone program as a means of incentivizing investment in economically blighted urban and rural communities. The Empowerment Zone plan for economic stimulation is a combination of federal grant money and tax-break incentives for private-sector organizations that locate in Empowerment Zones, employ residents who live within Empowerment Zones, or otherwise invest in Empowerment Zone neighborhoods. The Federal Empowerment Zone Program was also envisioned as a way to give marginalized communities a say in creating holistic neighborhood revitalization.

In 1999, twenty new areas were earmarked for Empowerment Zone status, including two neighborhoods in Minneapolis. This study explores the effects of Empowerment Zone status on economic development and community involvement within those neighborhoods. Chapter Two provides a background history of the Empowerment Zone Program, on the policy debate that exists with regard to place-based economic revitalization programs, and a discussion of previous assessments of Empowerment Zone performance. Chapter Three discusses the data and methodology used over the course of the project - a mix of quantitative and spatial data analysis and qualitative interview techniques. Chapter Four provides a history of the Minneapolis Empowerment Zone program, as informed by a broad spectrum of community development stakeholders. Quantitative results are presented in Chapter Five, while Chapters Six provides policy recommendations that should be considered by future place-based policy initiatives. The Minneapolis Empowerment Zone program was able to bolster community development projects over the course of its existence, but it did not succeed in dramatically improving the employment options of zone residents or in facilitating entrepreneurial growth.

Chapter II. Literature Review

Place-Based Economic Revitalization Policy Programs: The Empowerment Zone/Enterprise Community Initiative

In the wake of metropolitan decentralization, federal, state and local governments have sought programs to alleviate persistent concentrated poverty. The British urban planner Peter Hall first elucidated the zone concept in 1977. A geographically discrete zone would use tax incentives and regulatory relaxation to encourage job creation and business activity in blighted and disinvested urban areas (Oakley and Tsao, 2006). This concept was picked up during the Reagan administration by then-director of HUD, Rep. Jack Kemp. The enterprise zone was a private-business oriented development strategy that emphasized tax breaks for firms that situated in a zone area. The policy was not implemented at the federal level, but by 1987, over 1,500 Enterprise Zones had been implemented in 35 states (Oakley and Tsao, 2006). These programs were purely fiscal in nature as they provided no caveats for neighborhood revitalization or infrastructure development. Still, place-based economic strategies had a clear backing from politicians, despite mixed empirical findings on zone productivity. By the late 1980s, the zone concept had gained support at the federal level. The Tax Fairness and Economic Growth Act of 1992 included a proposal for 35 federally mandated zones, but the bill was vetoed by President Bush (Oakley and Tsao, 2007).

The Clinton administration, however, supported a federally backed location-specific economic development strategy. This resulted in the Empowerment Zone (EZ) and Enterprise Community (EC) initiative in 1993-1994. The initiative drew upon the enterprise zone concept, but it also made provisions for developing a comprehensive approach to revitalizing chronically impoverished urban and rural areas. In addition to tax incentives, the plan also allocated federal funding to EZ/EC areas for various human

capital development initiatives. Whereas prior federally-mandated poverty reduction programs followed a top-down development approach, the EZ/EC initiative directly mandated that local community planning would determine how funds would be spent. In providing grants to communities and tax incentives to businesses, socio-economic development issues could be addressed comprehensively at the local level (Gittell et al., 2001). According to a HUD press release at the time: "The federal government, working across agency lines and in a new partnership with state and local government and the private sector, will provide distressed communities with the tools they need and the flexibility they desire, in the form of block grants, tax breaks and waivers" (Gittell et al., 2001). The initiative was lauded as the most comprehensive federal anti-poverty effort since the War on Poverty. Stegman (1995) summarizes the great hope and anticipation that accompanied the program: "The EZ program goes beyond the single goal of economic development and recognizes that revitalization efforts must address the full range of community needs. We believe that every community that participates in the application process ends up winning, if not by achieving the desired empowerment zone designation, then by going through a bottom-up planning process for creating a better future..." (Stegman, 1995).

There was clearly much excitement in local government and in the neighborhood activist community about developing an Empowerment Zone application. HUD mandated that applicants create strategic plans that involved non-governmental community stakeholders. It required that strategic plans focus on four key programmatic principles: a) community-based partnerships, b) economic opportunity, c) sustainable community development initiatives and d) an overall strategic vision for change (Oakley and Tsao, 2006). Applicants also had to meet specific neighborhood-characteristic criteria. Potential zones needed to:

- Have a population between 50,000 and 200,000 persons;

- Not exceed 20 square miles on total land area
- Demonstrate a poverty rate of more than 20% in each census tract of the zone, or a 25% poverty rate in 90% of zone tracts, or a 35% poverty rate in at least 50% of census tracts;
- Have a continuous boundary, or consist of no more than three noncontiguous tracts;
- Be located entirely within the jurisdiction of one local government
- Not include the central business district unless extreme poverty was present. (Oakley and Tsao, 2006)

In all, over 290 applications were received for EZ or EC selection. In the end, six urban and three rural Empowerment Zone communities were selected. Each urban zone received 100 million dollars in Title XX Social Service Block Grants, while rural zones received around 40 million dollars. Round I urban Empowerment Zones were Atlanta, Baltimore, Chicago, Detroit, New York and Philadelphia. Los Angeles and Cleveland were later included as supplemental Round I cities.

In addition to Block Grant program funding, EZs carried specific economic revitalization incentives. The Empowerment Zone Employment Credit was awarded to employers who hired a resident of a designated EZ area. The credit results in a \$3,000 dollar tax break per employee (IRS Publication 954, 2004). The zone also allows for an increased section 179 deduction, a deduction of all or part of the cost of a business property within the zone. Furthermore, the opportunity for bond financing and a rollover of capital gains from the sale of an EZ asset is available (IRS Publication 954, 2004).

While cities were individually responsible for deciding how to allocate funds, all Round I cities followed a similar governance structure. First, there was an agency responsible for program implementation. In most instances, the city planning agency set up an office that was directly responsible for overseeing EZ projects and EZ funding. Where there was no planning agency present, cities developed an EZ management corporation to oversee the audits of funding recipients. HUD also mandated that a Governance Board be implemented to make decisions about how and where funding should be designated. The Governance Board was generally comprised of a mix of city

government officials, representatives of the lending and philanthropic community, and representatives of community-based organizations. A final HUD requirement mandated that a certain number Governance Board positions be held by residents of the EZ.

The Empowerment Zone program was expanded in 1998-1999 to include other economically distressed urban areas. Twenty new zones, fifteen urban and five rural, made up the Round II designations. Minneapolis was a Round II designated city. In 2001, a third round of Empowerment Zones was designated, this time incorporating seven rural zones and two urban zones. It is important to note the changes in funding that befell Round II and Round III zones. Whereas each of the Round I cities received 100 million dollars in Social Service Block Grants, Round II cities were only earmarked to receive 19 million dollars each, with subsequent funding subject to Congressional approval. Meanwhile, Round III cities were introduced by the Bush administration. The Bush administration favored the tax break incentives of prior rounds but provided no social service funding for Round III EZs.

In order to gain Congressional approval for the plan, HUD was required to keep extensive records of how and to whom funding was given. HUD applied the Performance Measurements System (PERMS) as a means to chart Empowerment Zone progress. City Empowerment Zone offices were required to report funding outcomes – essentially, what happened with the funding, how many zone residents benefitted, how many zone jobs were created, etc.

Place-based Economic Policies: Do they Work?

There is considerable debate within the academic and policy communities as to the efficacy of place-based economic policies. Critics contend that policies designed to help distressed communities are misguided and wasteful in their spending and that people-based approaches are the most effective poverty reduction strategies (Peters and

Fisher, 2002). Policies like job training, family counseling, relocation assistance and health care assistance form the core of people-based policy initiatives (Patridge and Rickman, 2006). Critics of place-based policies contend that they induce the disadvantaged to not migrate to localities with better employment, which creates a culture of dependency in the region (Patridge and Rickman, 2006). Furthermore, critics argue that newly created jobs in high poverty areas will not necessarily go to residents of those areas. Instead, jobs will go to commuter employees with the highest degree of credential and skill. Therefore, while businesses and property owners may reap the benefits of place-based economic plans, this is not necessarily the case for disadvantaged residents (Peters and Fischer, 2002). Others argue that some areas of concentrated poverty are simply not economically viable. These include small-scale rural economies that lack the comparative advantage to be economically viable (Patridge and Rickman, 2006).

There are, however, arguments for including place-based policies in the optimal policy mix, particularly at the urban scale. The spatial equilibrium model contends that high wages in an area are offset by high prices and low real wages are offset by lower prices (Glaeser and Gottlieb, 2008). But this equilibrium is impeded if labor is not perfectly mobile across an area (Patridge and Rickman, 2006). The results of metropolitan decentralization support the theory of a spatial mismatch between labor markets – particularly low-wage labor markets – and the employment pool. Urban spatial mismatch could then be mitigated through effective place-based strategies. Furthermore, the concentrated nature of urban poverty can thwart evenly distributed people-based policies as there are conceivably more applicants for the same limited pool of resources. The actual distribution of concentrated poverty shows that urban labor markets do not operate in optimal equilibrium.

Other proponents of place-based policy assert that effective place-based policies can improve agglomeration economies. Agglomeration economies can arise from highly concentrated specialized markets, specialized labor supply, and knowledge spillovers across firms (Patridge and Rickman, 2006). Place-based economic development policies have the potential to subsidize an area of economic agglomeration and knowledge spillover. While both sides of the debate raise excellent points about the efficacy of place-based programs, it is clear that there is a spatial concentration of impoverished areas in the United States. The subsequent section reviews two major place-based economic improvement strategies – Enterprise Zones and Empowerment Zones.

Empowerment Zone/Enterprise Zone Academic Case Studies

There have been numerous academic studies of the effectiveness of Empowerment Zone and Enterprise Zone programs. Case studies of Enterprise Zone programs reach as far back as the mid 1980s, a few years after the first state Enterprise Zone programs were initiated. Compared to Enterprise Zones, there have been far fewer studies of the Empowerment Zone initiative. This is likely a result of the relatively recent implementation of the program, which means that less empirical data exist to run a quantitative analysis. Studies of Enterprise Zones are then important to include in a discussion of place-based policy assessments because they are the most similar to the Empowerment Zone program in terms of objective and structure.

Because Enterprise Zone programs were exclusively focused on stimulating economic development through a package of tax credits, most studies have used econometric regression analyses to link zone designation and economic improvement. Furthermore, most studies focus on a particular state or metropolitan area program. It is hard to execute comparative studies between states because positive or marginal results from one state's program may have to do with program-specific policy features

(Bondonio and Engberg, 2000). Still, there are some comparative studies of Enterprise Zone programs across states that attempt to control for differences in program implementation and pre-existing economic conditions.

The earliest studies of Enterprise Zone performance from the mid-1980s showed mixed results in terms of increasing job growth and business location in zone areas. A study of the Illinois program found that some job growth had occurred, but it was not enough to offset neighborhood economic decline. A study of the New Jersey zone found generally positive effects as well, noting that program benefits were more likely to be used by larger firms (Spencer and Ong, 2004). However, as Spencer and Ong note in their review of early program studies, the evaluations did not account for confounding factors, such as regional economic growth rates, the business cycle and the fact that zone area selection was in part a political process (Spencer and Ong, 2004).

More contemporary studies have attempted to control for these heterogeneous factors in their regression analyses. In her study of California Enterprise Zones, O'Keefe describes the complexity of analyzing the performance of place-based economic initiatives. Though job growth can be observed, it is hard to identify how many jobs would have been created without zone existence. Furthermore, Enterprise Zones may develop faster as a result of planned redevelopment initiatives and not necessarily as a result of tax incentives. Finally, the differences in baseline neighborhood characteristics at the outset of designation make it difficult to compare zone areas with non-zone areas (O'Keefe, 2004). The author employs a propensity matching score model, based on US Census 1990 demographic characteristics and 1992 state-level employment data. The methodology allows similar census tracts to be identified and studied – each Enterprise Zone tract is matched with a similarly scored non-zone tract within the same county. From this, changes in employment and other demographic characteristics were observed over the thirteen-year existence of the program. O'Keefe found a statistically significant

3% increase in employment in zone tracts over non-zone tracts during the first six years of the program. However in years seven - thirteen, employment growth within zone tracts was negative, though not statistically significant, when compared with non-zone tracts (O'Keefe, 2004).

Some researchers, including Bondonio and Engberg, have sought to compare Enterprise Zone programs across different states. In their five-state program analysis, they assess changes in employment in Enterprise Zones while controlling for heterogeneous program factors in a regression model (Bondonio and Engberg, 2000). These factors include the amount of funding and the types of tax breaks that each state program enacted as well as other specific policy features. They argue that the amount of funding and the type of investment incentives are important to consider when studying place-based policies. For instance, incentives that reduce the price of capital goods may increase production and employment but they may also cause firms to substitute labor for more capital (Bondonio and Engberg, 2000). After controlling for monetary input, the study also controls for the presence of a strategic planning requirement in the zone application process; for the job creation and capital requirements of each program; and for the percentage of land within a state that is designated as an Enterprise Zone. The results of the paper show that Enterprise Zone programs did not have a significant impact on local employment, even after controlling for different monetary input and different policy features of each program. Furthermore, the amount of subsidy awarded to zone businesses does not noticeably impact local employment levels according to their regression model (Bondonio and Engberg, 2000).

Spencer and Ong (2004) use other data to measure business growth and neighborhood revitalization as a result of local economic development programs. In a 2004 study of the Los Angeles Revitalization Zone, they assessed commercial and residential business permit applications as an indicator of neighborhood investment.

The Los Angeles Revitalization Zone (LARZ) was an economic stimulus program that was developed in the aftermath of the 1992 Los Angeles Riots. After more than 10,000 businesses were affected by rioting, the California Legislative assembly enacted the program as a way to make neighborhood investment more attractive to the private sector. The program is very similar to the Enterprise Zone in that tax credits were provided on sales, hiring, property purchases and other economic activities (Spencer and Ong, 2004). Unlike the Enterprise Zone, the program was also located in moderate-income areas affected by rioting. Using an OLS regression model that controls for neighborhood economic base, neighborhood economic growth rates, socioeconomic indicators and real estate values, they found that LARZ areas received lower investments per building permit than the rest of the city (Spencer and Ong, 2004). However, the authors also recognize the importance of non-market institutional and political factors that they did not account for in their regression model.

One of the most comprehensive long-term assessments of Enterprise Zone performance comes from Peters and Fisher's book *State Enterprise Zone Programs: Have they worked?* The book analyzes 75 zones across thirteen states, attempting to incorporate larger policy implications for place-based programs. The authors use a "hypothetical firm" model to measure the value of Enterprise Zone tax breaks to a firm that might situate in the zone. The Tax and Incentive Model for Enterprise Zones (TAIM) calculates the extent to which a particular incentive increases a firm's return on its investment, either by increased cash flow or increased internal rate of return (Peters and Fisher, 2002). The findings show that the average package of incentives was worth about \$5,049 per job to firms across the 75 zone samples. There was also large variation among sectors as almost half of cities had one industry sector where the subsidy package totaled more than \$10,000 per job. The findings also demonstrate that competition amongst states and municipalities for manufacturing investment has led to an increase

in government incentives in zone and non-zone areas. The overall trend in the 1990s was to reduce basic taxes on corporations in order to incentivize investment. Essentially, they argue that few location decisions are made as a result of place-based incentives and that the increased budgetary costs to local governments as a result of increased tax abatements make Enterprise Zone unviable (Peters and Fisher, 2002).

Studies of Empowerment Zones vary more in methodologies and content than do Enterprise Zone studies. This is in part a reflection of the different programmatic aspects and goals of the Empowerment Zone and Enterprise Zone. Besides the obvious difference in scale between a federal program and state/regional program, the Empowerment Zone provided block grant funding for Zone areas. The concept of the Empowerment Zone held that local communities and their governments should be the decision-makers in allocating funds, and that holistic community development should be an end result. Therefore, EZ studies have focused both on the effects of funding on socio-demographic area indicators as well as on the effects of the EZ on community stabilization and human capital development. While Empowerment Zone studies have not been as comprehensive in scope as Enterprise Zone studies, existing research findings are nonetheless important to consider.

Most quantitative Empowerment Zone studies use the 1990 and 2000 US Census to compare changes in employment, poverty, home-ownership and other socio-demographic indicators within Empowerment Zones. As a result, only Round I (1994) designated programs have been studied in-depth. This also means that Zone programs had only six years to show any measurable impact on socio-demographic characteristics, and that long-term outcomes resulting from designation cannot be assessed.

Oakley and Tsao have been at the forefront of incorporating quantitative analysis into Empowerment Zone literature. The authors have also assembled one of the most complete literature reviews on the subject. Their 2006 report is a comparative

study of four Round I designated cities – Chicago, Baltimore, New York City and Detroit. Using HUD's PERMS (Performance Measurement System) they categorize funding recipient organizations by type and review the planning initiatives for each city. HUD's three types of funding ventures are: community-based partnerships, economic opportunity ventures, and sustainable community development ventures. Community-based partnerships received the least funding in each zone, ranging from 0.73% to 2.15% of total funding. All cities except Chicago used the majority of funding to back economic opportunity ventures. The range of funding used for economic opportunity spanned from 66.77% to 88.94%. Meanwhile, Chicago used 77.55% of total program funding on sustainable community development, while other zones used between 7.73% and 24.62% of funding on community development ventures (Oakley and Tsao, 2006). The findings show that the initial HUD mandate for community-based public-private partnerships was not considered a point of emphasis after cities received EZ status (Oakley and Tsao, 2006).

The second component of Oakley and Tsao's research involves the use of propensity-score matching and regression models to study changes in socio-demographic characteristics between the 1990 and 2000 US Census. The propensity-score matching model allows for similar non-EZ areas to be located within the city, so that a comparison study area can be established. Each zone census tract is matched with a non-zone census tract of equal or similar score. The input data were population size and poverty level - which were HUD's eligibility requirements - along with percent unemployment, percent non-Hispanic White, percent non-Hispanic Black and percent Hispanic (Oakley and Tsao, 2006). An independent t-test was used to calculate the significance of EZ designation on changes in socio-demographic data in the 1990 and 2000 US Census. Test variables included poverty, race, population, average household income, and percent

receiving public assistance, along with variables on educational attainment, occupational status and residential homeownership.

Three key findings arose from the statistical analysis. First, although there was variation in t-test outcomes between different zones, the net impact of programs was minimal. While there were some positive outcomes - including increased homeownership in Baltimore, poverty reduction in Detroit and Chicago and unemployment decreases in Chicago - these trends were not program wide. Second, across most economic indicators there was very little difference between zone and non-zone census tracts. Finally, a zone's size and total population had no measurable impact on the outcome of the test (Oakley and Tsao, 2006). Oakley and Tsao argue that because outcomes were negligible the efficacy of the EZ initiative is unclear. Even where poverty was reduced in Chicago and Detroit, overall poverty rates still hovered at 40% (Oakley and Tsao, 2006).

Oakley and Tsao continued their research in two 2007 publications, each using the propensity-score matching model to focus specifically on Chicago's EZ. They studied the role of community participation during the planning and implementation process along with using propensity-score matching to examine socio-economic "spillover" effects of EZ areas. The authors found that while initial planning was an inclusive process that featured input from zone residents and the CDC community, once the designation was made by HUD, the balance of power shifted to the mayor's office and the city council (Oakley and Tsao, 2007). These findings are commensurate with both Gittell (2001) and McCarthy (2003). Using the same matching/t-test methodology they compared socio-demographic shifts in zone census tracts to non-zone census tracts, specifically focusing on non-zone census tracts located adjacent to the EZ. Again, their findings showed modest but uneven improvements in EZ census tracts. For instance, while poverty reduction did occur in adjacent non-zone tracts, the same did not hold true for trends in unemployment and income (Oakley and Tsao, 2007).

While other studies, such as Greenbaum and Bondonio (2004), employ statistical modeling and regression techniques in analyzing the Empowerment Zone, the majority of Empowerment Zone literature has taken a qualitative approach in assessing zone performance. O'Neal and O'Neal (2003) surveyed human service organizations located in Empowerment Zones to assess perceptions of the EZ program by potential recipient organizations. The sample included 23 non-profit agencies, one for profit agency, one local government office and one agency listed as other (O'Neal and O'Neal, 2003). Agencies were then divided by service type into clinical, social and economic development categories. Agency impressions of the EZ were varied, but many reported some favorable impression of the planning and implementation process. Most respondents expressed hope about the potential to network and to gain funding resources as a result of the EZ. However, there were numerous negative comments about the lengthy and stringent RFP process, including the general impression organizations would not directly benefit from the EZ (O'Neal and O'Neal, 2003).

In their article, *Towards an Empowerment Zone Evaluation*, Jenkins and Bennett (1999), argue for a more nuanced way of studying the implementation and effects of Empowerment Zone programs. Both authors are members of the National Empowerment Zone Action Research Center at DePaul University's Egan Urban Center. They assert that traditional economic development program evaluations are based on measurable program goals and comparisons to a control group. However, relying on a solely quantitative methodology to study Empowerment Zones does not acknowledge the complexities of assessing a broad, flexible community revitalization program. While quantitative analyses can inform the overall evaluation, they extol the importance of "action research" in developing a comprehensive assessment of program performance (Jenkins and Bennett, 1999).

Action research is defined as an evaluation that provides ongoing feedback to and from the initiative's designers as well as feedback from the targeted program population – in this case, EZ residents (Jenkins and Bennett, 1999). Research findings should be informed from multiple perspectives, and policy recommendations should come from targeted community stakeholders. This methodology is especially important in assessing a program like the EZ, which necessitated the collaboration of different actors from the urban political sphere. As different players in this sphere maintain different notions of effective community revitalization, drawing on the opinion of a wide array of stakeholders provides the most holistic assessment of both the program itself and the preexisting urban political climate.

Baum (1999) studies inter-organizational conflict and cooperation in the Baltimore Empowerment Zone. He focuses on the relationship between the Baltimore public school system and the Empower Baltimore Management Corporation (EMBC) – the central office of the Baltimore EZ program. Drawing first from the literature on organizational relations, Baum situates Empowerment Zone planning within a framework of inter-organizational domains. This refers to conditions in which organizations that have interests in similar or overlapping problems act in ways that influence one another (Baum, 1999). Often organizations may be unaware of other “players” in the same domain, even trying to accomplish similar objectives using divergent methods. Inter-organizational domain theory is an effective method by which to consider the community development field. There are multiple actors/organizational bodies united under the umbrella concept of community development, yet each has its own vision of what community development should look like. These divergent goals are often a reflection of the unique backgrounds, ideologies and funding streams of different organizations. Organizational theory is quite applicable to theories of urban governance, which also acknowledge the importance of creating coalition-networks between actors

with similar objectives. Baum quotes Clarence Stone, who asserts, “urban regime theory assumes that the effectiveness of local government depends greatly on the cooperation of non-governmental actors and on the combination of state capacity with nongovernmental resources” (Stone, 1993).

Baum argues that the Empower Baltimore Management Corporation (EMBC) had only a marginal interest and a marginal funding stream dedicated to improving education. Between six and seven million dollars were allocated for school improvements, a figure that was not large enough to promote long-term revitalization, especially after the Empowerment Zone program ended. Baum asserts that the EBMC considered the school system as a potential bidder for funds and not as a pivotal social institution (Baum, 1999). The subsequent development of the *Ad Hoc Group on Education and the Empowerment Zone* reflected the desire of education professionals to harness zone funds for educational improvement. Baum finds that their effects were minimal, mostly because the EZ had a finite budget and the EBMC had focused most of its funding on economic development. Still, the Ad Hoc Group on Education exemplifies the importance of inter-organizational community involvement in steering governmental policy and programming (Baum, 1999).

Arlene Dávila studies the New York Empowerment Zone and its effects on the “cultural branding” of East Harlem. She describes the actions by global urban centers during the 1990s to use ethnicity and ethnic enclaves as a form of cultural tourism. While the uniqueness of the enclave is important to maintain, spaces must also be seen as safe and accessible by outsider/tourist populations. Dávila contextualizes the EZ experience in New York as one mired in conflict between gentrifying development forces and the local resident population. Federal and state redevelopment initiatives have served as catalysts for outside development in East Harlem. The largest economic loans

were given to large corporations and developers, who in turn displaced local merchants through higher rent rates and competition from national retail chains (Dávila, 2004).

Furthermore, New York implemented a Cultural Investment Fund as a means to fund cultural attractions in the EZ. East Harlem, also referred to as El Barrio, is one of the main Latino enclaves in New York. Dávila argues that the neighborhood enjoys a distinct status in the eyes of New York's Latino population. The area could be a prime location for the development of in-neighborhood cultural institutions. However, only about 1.5 million dollars of the 25 million dollar Cultural Investment Fund budget was allocated to East Harlem. The rest went to other areas of the New York Empowerment Zone, most notably West and Central Harlem. Many cultural investment RFPs were denied in East Harlem. Dávila points to the lack of funding as an example of the continued EZ preference for outsider development.

One of the most comprehensive assessments of the Empowerment Zone program comes from the Howard Samuels State Management and Policy Center. Funded by the MacArthur Foundation, researchers studied six Round I EZ programs in an effort to determine the extent of democratic participation and social capital development on the part of community-based organizations. Because EZ legislation was specific in linking enhanced community participation with revitalization, the report studied the interaction between community organizations, local government and the private sector. The report provides a political, social and economic context for each city's EZ program. Extensive interviews from key stakeholders in local government and the community development field were also included (Gittell et al., 2001). The report asserts: "In the long run the goal of building community capacity is a product of the vitality of the community organizations and the city environment, the mechanisms for community access and the ability of local groups to build networks with elites..." (Gittell et al., 2001).

The report found that the level of interaction and collaboration between the Empowerment Zone and community organizations was severely lacking in each of the Round I cities. There was a palpable conflict between local activists and city officials with regard to how the program should be run, with city government unwilling to relegate true authority to community participants. While the preliminary planning phase was successful in engaging community participants, after cities received funding decision-making power was squarely vested in the hands of the governance board. Furthermore, the report argues that EZ funding policies created a competitive environment for community-based organizations because of the limited funding stream that was made available. EZ funding was also more likely to reward narrow ventures with concrete outcomes, further increasing organizational competition. In summary, the report found that the closed political structure of city politics deterred new participatory engagement by community activists. In certain instances this closed structure even disenfranchised the local business community (Gittell et al., 2001). The lack of federal supervision of the EZ process after the planning stage sent the message to city politicians that true community-based change was not the priority of federal authorities. These findings are commensurate with the funding breakdown that Oakley and Tsao provide, where a small fraction of total funding went to community-based partnerships. While the program's rhetorical background lauded the importance of the development of social capital, this concept was by and large abandoned after cities received funding (Gittell et al. 2001).

Chapter III. Data and Methodology

The methodology of this project can be viewed as a hybridization of quantitative and qualitative analysis. The goal of the project is to gain the most comprehensive understanding of what changes befell the Minneapolis Empowerment Zone, how and

why. Both quantitative and qualitative analytical techniques have the potential to inform this process. First, GIS mapping and statistical data analysis were used to assess changes of economic conditions within the Empowerment Zone.

The first major dataset used was Longitudinal Employer Household Dynamics (LEHD) data. The dataset is a product of collaboration between Cornell University and the US Census. The self-described objectives of LEHD data are to show “where people work and where workers live...with companion reports on their age, earnings and industry distributions” (LEHD Technical Documentation, 2008). The database contains information from 2002-2006. The three subcategories of data analyzed in this project were Residence Area Characteristics (RAC), Workplace Area Characteristics (WAC), and Origin Destination (O-D). All LEHD data is found at the block level, making it particularly useful for a detailed analysis of a small geographic area like the Empowerment Zone.

RAC data reflect the jobs held by residents of a particular block. The data come from the Census Bureau’s Statistical Administrative Records System (StARS) database (LEHD Technical Documentation, 2008). The StARS database combines several administrative datasets, including federal tax forms and Medicare rosters, to find the residential locations of workers. The data cover close to 90% of all workers, while the remaining 10% are omitted because of data confidentiality issues.

WAC data represent the number and types of jobs that are located in a particular block. This database is created by the Bureau of Labor Statistics and state employment agencies. The data are derived from state unemployment insurance reporting from the second quarter of each year. About 5% of establishments are imputed. Other data validity issues arise from the fact that some employers file information from one location, while there may be multiple employment establishments from the same company. O-D data portray the matrix created between an employee’s home block

location and his/her work block location. Again, data validity issues result from the fact that some employers do not distinguish between multiple establishments in reporting the work block of employers. Still, the LEHD project represents one of the most complete and accessible employment datasets.

LEHD data contain information on the job type, the earnings level and the age of worker. LEHD also delineates between all jobs and primary jobs, that is, the single job with the highest pay for a specific individual. For this analysis, "primary job" was used, unless otherwise noted. Job type was classified by twenty major North American Industry Classification System (NAICS) code sectors. Earnings type was classified into Low, Middle and High, which represented the dollar amount garnered per month during the second quarter of the given year. Low-earnings workers earned \$1,200 per month or less; middle-earnings workers earned \$1,201 – \$3,400 per month; high-earnings workers earned more than \$3,400 per month (LEHD Technical Documentation, 2008). Earning levels are important data subcategories but the high earnings category is a misnomer, as a worker needs to make just \$40,800 per year to be considered high earning. Making just above \$40,000 dollars would put a worker around the 75% percentile of Area Median Income. The number of jobs, industry type and earnings level were used in GIS mapping and statistical analysis.

The second major dataset used in this study was a detailed parcel shapefile of Minneapolis. The City of Minneapolis and MetroGIS, a Twin Cities private/public GIS consortium, maintain detailed parcel data in shapefile format from 2002-2008. The dataset contains information on the Estimated Market Value (EMV) of a parcel; taxpayer information and tax-exemption status; land use type (residential, commercial, etc.); and occupancy status. Unfortunately, 2002-2004 parcel information does not keep a record of land use type or occupancy status. The main data used in this project were EMV, occupancy status, and vacancy status.

A third data source was the US Census. Because the Minneapolis Empowerment Zone began in late 1999, 2000 US census data served as an effective baseline for assessing the socio-economic conditions of Minneapolis prior to Empowerment Zone implementation. This data source was critical for identifying comparison areas with similar socio-economic characteristics.

Finally, information on the funding recipients was provided by the Minneapolis Empowerment Zone office. The spreadsheet contains the recipient organization name and the amount of funding allotted. The address location of each recipient was identified where possible.

GIS mapping and spatial analysis were used to measure changes in zone resident/workplace employment dynamics between 2002 and 2006. The 2002-2006 study period was also used in the parcel data analysis. In addition to GIS mapping, statistical analysis techniques were used. A shift-share analysis studied changes in employment by industry sector and earning level in the EZ as compared to the rest of Minneapolis between 2002 and 2006. A t-test analyzed mean rates of change of RAC, WAC, EMV and percent vacant parcels of block groups in the EZ versus similar non-EZ comparison block groups.

There are definite limitations to the quantitative methodology presented. The most apparent limitation is the fact that there is no comprehensive dataset that looks at socio-demographic characteristics apart from the 2000 US Census. The 2010 Census will be a useful tool in assessing the impact of EZ designation on blighted communities, but until then researchers are forced to use proxy measures. Therefore, employment data and parcel data must fill the analytical void. Apart from the previously discussed data discrepancies that exist in each dataset, the literature review of EZ case studies show that economic indicators did not change drastically as a result of Empowerment Zone designation. The goal of any policy program study is to glean the effects of a policy while

controlling for heterogeneous factors. There is simply not enough data to create a multivariate regression that controls for these factors. Although the analysis cannot create a direct link between EZ designation and tangible outcomes, it is able to show neighborhood changes at a discrete level.

Furthermore, there is only a four year time period to study, so long-term neighborhood effects cannot be assessed. This is especially pertinent in light of the collapse of the mortgage and housing markets. Skyrocketing foreclosure rates and the collapse of housing prices will have radical effects on low-income communities in the near future. This study period does not reflect the changes that a longer time frame would certainly show.

The second methodological component of this study involved conducting interviews with key community stakeholders regarding EZ planning and implementation. To get a true sense of the Minneapolis EZ, its successes and limitations, it was necessary to reach out to involved parties. These stakeholders were able to provide a descriptive history of what happened in the EZ implementation process. They were also able to provide critical insight on the successes and limitations of the program and how a site-specific community revitalization program could be improved. Interviewees included the current and former EZ office director; two city Councilmen who sit on the EZ Governance Board; members of the community development field; and concerned neighborhood activists. These interviews are powerful in their own right, as they provided critical insight into Minneapolis EZ performance. They also inform the Policy Recommendations section as well as the following section on Minneapolis Empowerment Zone designation.

Chapter IV. The Minneapolis Empowerment Zone

Minneapolis was awarded with Round II empowerment zone status in January 1999. While the city has not traditionally been considered a center of concentrated poverty on the level of Detroit or Milwaukee, the initial application made clear why designation was essential for Minneapolis.

“...Despite our nationally recognized social program and reputation for good government, Minneapolis has one of the highest concentrations of poverty of any metropolitan area, coupled with the largest income disparity between whites and minorities in the country. The areas Minneapolis will include have seen an increase in juvenile crime, housing deterioration, poor educational attainment and a rapidly increasing immigrant population...” (Minneapolis Empowerment Zone Strategic Plan, 2002-2005)

At its inception, the Minneapolis Empowerment Zone covered three non-contiguous areas of Minneapolis: a zone north of downtown, south of downtown and a development site across the Mississippi River in southeast Minneapolis. According to the Minneapolis strategic plan, the zone demographic patterns were varied in race in ethnicity, but homogenous in the level of concentrated poverty. African-Americans accounted for 30 percent of the population, Native Americans 5 percent, Asian/Pacific Islanders 9 percent and Hispanic/Latinos 13.5 percent. The unemployment rate in the Zone was triple the state average, and 45 percent of residents were not in the labor force. Around 60 percent of all children in the zone were living in poverty (Minneapolis Empowerment Zone Strategic Plan, 2002-2005). In all, 19 of the 81 Minneapolis neighborhoods – an area that housed 55,000 residents and some 3,200 businesses – were included in the EZ (Minneapolis Empowerment Zone Strategic Plan, 2002-2005).

HUD required that the city submit a comprehensive proposal and to create a governance structure that would make decisions on funding allocation. The Empowerment Zone office was set up as an extension of the city's main planning body, the Minneapolis Community Development Agency. That office later became integrated

into Minneapolis Community Planning and Economic Development. Like EZ offices in Round I designated cities, the Minneapolis EZ office was tasked with overseeing the day-to-day operations of the program. This included reading request-for-proposals (RFPs) that were submitted by potential recipient organizations, along with conducting loan audits on recipient organizations and maintaining performance reports in accordance with federal PERMS standards. In addition to the EZ Office, the city assembled a Governance Board to oversee how funds would be distributed. The board was comprised of local Government officials, including Mayor Sharon Sayles-Belton and Councilwoman Jackie Cherryhomes; representatives of the philanthropic and lending community; representatives of other government agencies; business community leaders; and seven seats for residents of Empowerment Zones. In all, the Governance Board totaled about thirty members.

At the time of Minneapolis' designation, Kim Havey was a community development consultant who had worked on numerous development ventures in South Minneapolis. After an exhaustive search and interview process, in late September of 1999 city leadership appointed Mr. Havey to head the Empowerment Zone office. The city had partially planned how EZ funding would be spent because of the federal application process. The first task of the Empowerment Zone office was to write a proposal for state bonding that would match EZ funding on three main development projects: The Midtown Exchange development in South Minneapolis; Heritage Park, a mixed-income public/private housing venture on the Near North side; and the Southeast Minneapolis Industrial era (SEMI), the industrial development site that comprised the third EZ area (Havey interview notes, 2/24/09). "Inside the organization there was this idea that the EZ could be an effective tool for development. Especially during the Sayles-Belton era, Minneapolis was a very development-minded government," says Robert Lilligren, Ward 6 Councilman and Governance Board member. The development projects

were undertaken because they were seen as a way to invest funds into the community quickly and efficiently, but also because the potential for a return on the investment was important to the EZ Office. A brief description of these projects (henceforth know as *demonstration projects*) is important to any discussion of the Minneapolis EZ, as they were the main recipients of funds over the duration of the program.

The Midtown Exchange, originally a store and headquarters for Sears Roebuck and Co., was vacated by the company in 1994. The city took over the deed to the property and the building remained dormant until 1999 when EZ funding enabled the development project. Originally, the first round of EZ funding went to environmental remediation of the site. There were many ideas regarding how the best develop the site. Some called for a full-scale private condominium development, while others argued for a mixed-use and mixed-income building that would continue to build community capacity in the neighborhood. The Sears building however, was unique in the fact that the city owned the property and could decide what to do with the building. The debate over what to do with the site went on even after the Empowerment Zone invested in the project. For a time, it seemed as if the building would be demolished but members of both the surrounding community and local government rallied against the proposal. After much debate, the project had still not gotten off the ground by 2002 (Lilligren interview notes, 2/10/09). However, in 2004 Ryan companies became the lead developers on the project. This time the project did call for a mixed-use redevelopment as provisions were made for affordable and market rate apartments, along with more than 500,000 square feet of commercial/retail space. Minneapolis-based Allina Healthcare became the main tenant of the building, while the Neighborhood Development Center (NDC) purchased nearly 80,000 feet of retail space to develop the Midtown Global Market. The NDC is a community development firm that specializes in creating opportunities for small-

business entrepreneurs in the Twin Cities. Mike LaFave, Deputy Director of the organization, described the Midtown Global Market:

“...[It’s] a place where entrepreneurial ventures that had reached the second stage of development – that is they were doing well, they showed the potential for growth, we refer to them as anchor-stage businesses- would be given the chance to expand and benefit from the concentration of resources and other retail businesses” (LaFave interview notes, 3/30/09).

Additionally, the project includes a Sheraton Hotel that was built in an adjacent block from the original Sears Building. The project was unique because the city could put requirements on the development process. Robert Lilligren describes the positive neighborhood effects that came about from the Midtown Exchange:

“We [the city] had a very strong position within the contracting process. We tied construction jobs to the area, as well as jobs to the hotel. We created incentive to create a component that allowed for local entrepreneurship opportunities [the Midtown Global Market]. We also mandated affordable housing standards. We set very high minority participation goals and met them...But again, we did this because we owned the property and we had the authority to make requirements.” (Lilligren interview notes, 2/10/09)

Both Councilman Lilligren (a former South Minneapolis neighborhood activist) and Mr. LaFave described the importance of EZ funds in the giving the project initial momentum. Mr. LaFave said that resources like the EZ are incredibly important to the work of the NDC, as the organization often engages in ventures that the free market alone would not accommodate. While the tenants of Midtown Global Market have seen varied levels of success, Mr. LaFave argued that the Market had opened up the building to the outside neighborhood, thus preventing the “fortress mentality” that some urban redevelopment projects can create (LaFave interview notes, 3/30/09). While the EZ only directly funded about one percent of the entire venture, the momentum created by the initial investment was quite important.

The Heritage Park mixed-income housing development is located on the former site of Sumner-Glenwood homes, the main public housing project in Minneapolis for over fifty years. In 1994, a lawsuit brought against HUD claimed that low-income housing

was too spatially concentrated in the city. The site was torn down as part of the Hollman Decree, and plans were made to redevelop the area in a city document known as the Near North Redevelopment Plan. While smaller scale low-income housing sites would be situated throughout the Twin Cities, the original site called for a mixed-income housing development that would provide market rate homes along with public and affordable housing. After receiving EZ designation in 1999, the City of Minneapolis selected McCormack, Baron and Salazar to head the development of the site. Darlene Walser, the lead representative of McCormack, Baron and Salazar for Heritage Park, described EZ funding as important in creating initial thrust for the development. Most of the EZ funding went towards the development of architectural plans and the initial closing costs of the site. The project was a massive undertaking – the city alone invested \$100 million dollars – and EZ funding made up only a small portion of the investment. The EZ did see a return on its investment, as most loans were repaid after long-term financing was secured through other tax credit-equity funding programs (Walser interview notes, 2/27/09). While the project is ongoing, EZ funding created the initial leverage to get the project moving.

The constraints of being a Round II zone were that only \$19 million dollars were initially allocated to cities, with the implication being that Congress might extend more money if the first round of funding was spent effectively. For the first year of the program, much time was spent on developing the three core projects. However, after many years of trying to leverage funds with other philanthropic bodies, the EZ moved away from the SEMI site development. The other major change to the program came in the form of the amount of money that was granted by the federal government. By 2002, the Minneapolis EZ office had received 19.44 million dollars and it projected that it would receive 43.4 million dollars by the end of the program. The actual amount allocated to Minneapolis only totaled 28 million dollars by the close of the program. This

limit in funding certainly tempered the overall impact of the program in creating neighborhood economic change.

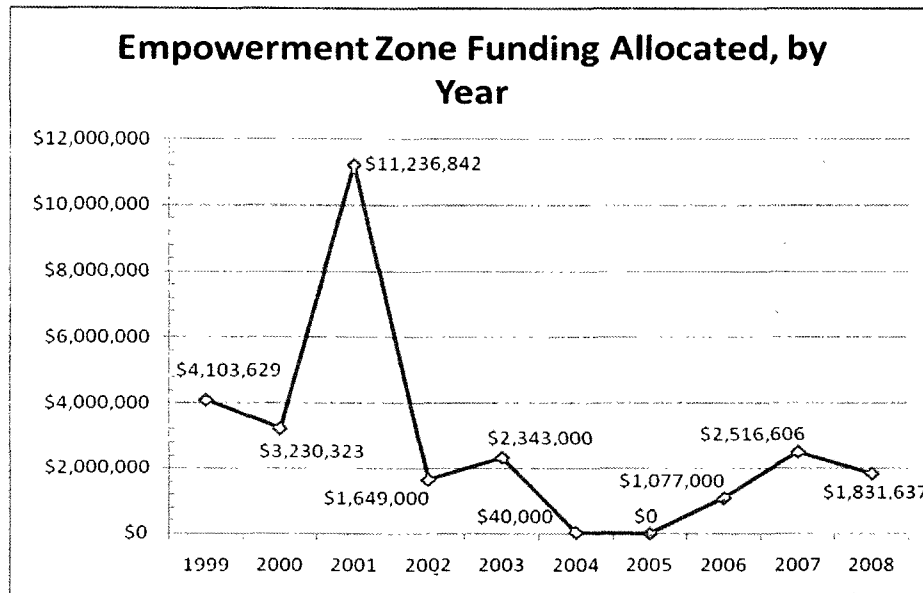
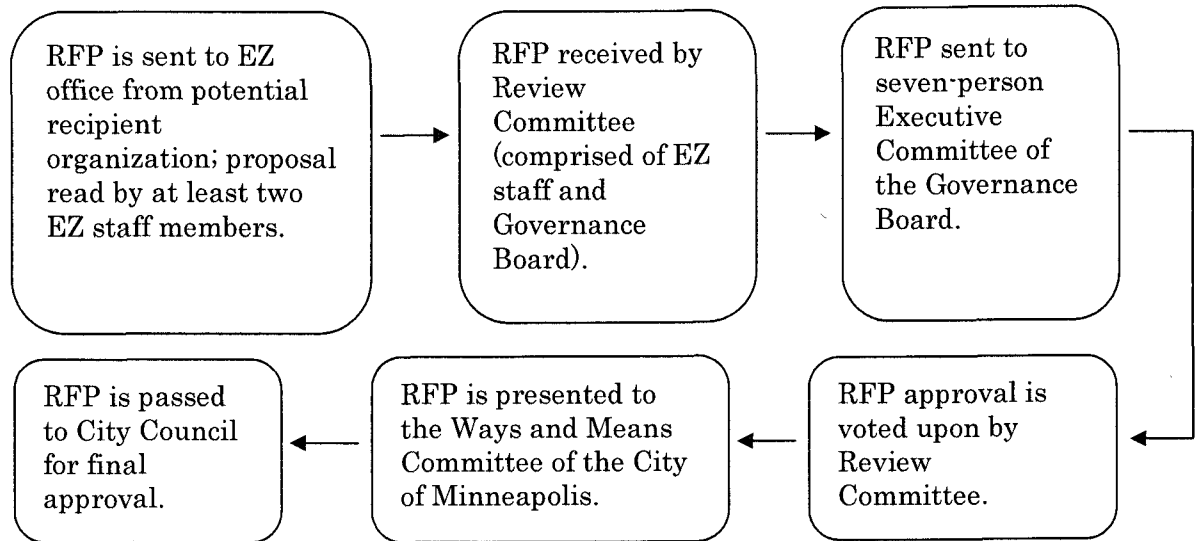


Fig 1. Minneapolis Empowerment Zone Yearly Funding Breakdown

While the EZ development projects were a high priority in the first years of the program, they were not the only way that the program spent money. Funding also went to community development organizations – the original intended benefactors of the Empowerment Zone initiative. The 2002 Strategic Plan created three funding categories for the distribution of remaining EZ funds. The first were major developments, or demonstration projects, which included the Midtown Exchange, Heritage Park and the now-defunct SEMI. The other two funding areas, Community Initiatives and EZ Initiatives, awarded funding to community-based organizations through the RFP process.

The RFP process for the Minneapolis EZ program was as follows (Havey Notes, 2/21/09):



Minneapolis Empowerment Zone Funding Recipients

These data were generously provided by the Minneapolis Empowerment Zone Office. The overall amount that the Minneapolis office secured from Congress totaled between \$28 and \$29 million dollars. The projects that received the most funding were Heritage Park (\$4,053,629); the Midtown Exchange (\$1,453,833); the YMCA/Abbott Child Care Center (\$1,379,000); and the Little Earth Housing Development (\$947,333). Recipient organizations that received funding through the RFP process reflected the diverse array of community organizations in Minneapolis. Most organizations were located in the EZ, but some, like the Neighborhood Development Center, received funding because their work targeted the EZ and its residents. Developing a classification system for the broad array of recipient organizations is a difficult task as many organizations have overlapping community development strategies. The EZ office does not classify program type, so an ad hoc classification system was established. Community Development organizations were the most common funding recipient,

although this number is artificially high as a result of the numerous types of programs that fall under “Community Development” classification. These recipient organizations included actual CDCs, arts initiatives, rehabilitation centers, youth organizations and faith-based organizations. Forty-one economic development organizations received EZ funding. These groups ran the gamut from actual small businesses, to job-force development organizations, to small business lending institutions. A full breakdown of the organizational type of funding recipients is located in Figure 2.

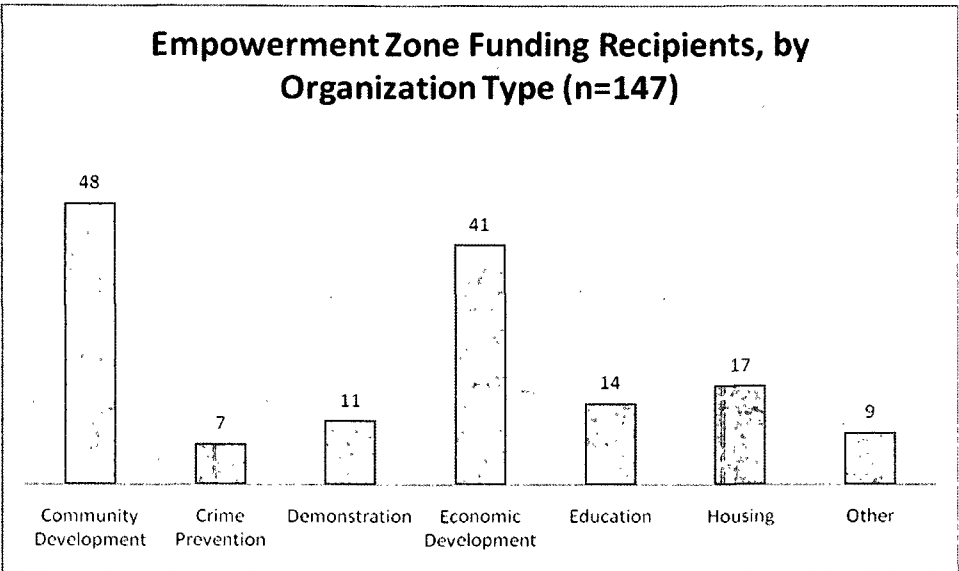


Fig 2. Empowerment Zone Funding Recipients

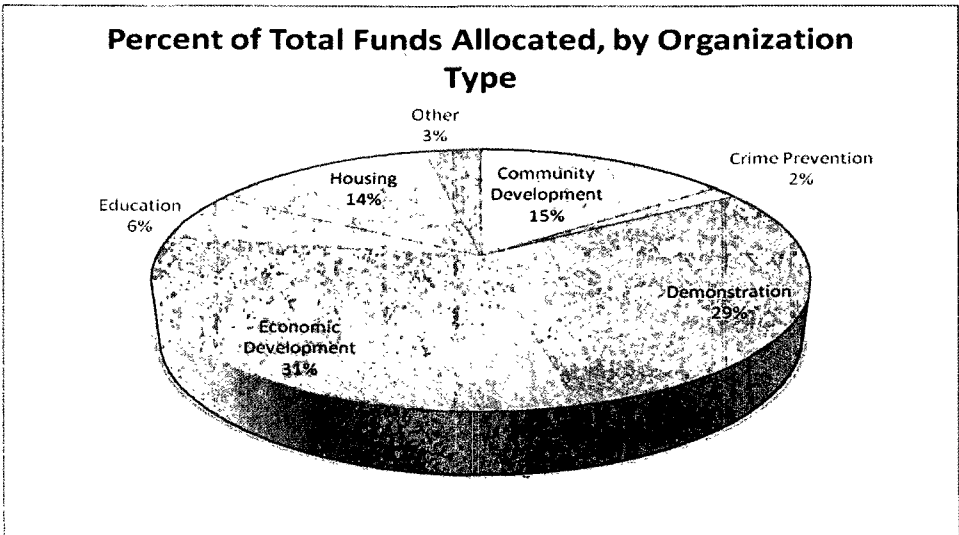
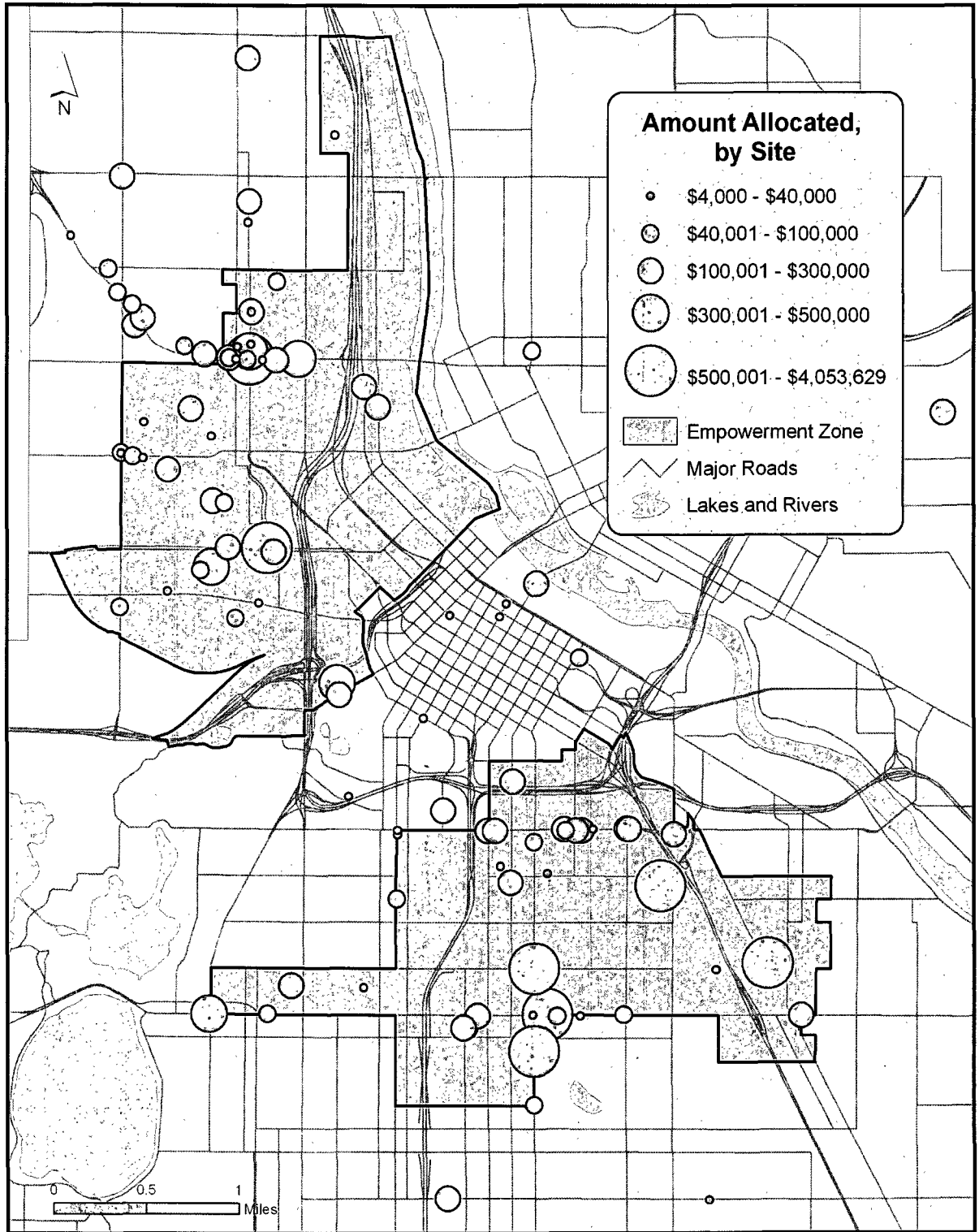


Fig 3. Empowerment Zone Funding Breakdown

Figure 3 shows the percent of funds allocated by organization type. Demonstration and Economic Development initiatives received the most funding, followed by housing and community development. However, many of the demonstration projects are also considered housing/community development ventures. Maps 1 and 2 (*Empowerment Zone Funding Allocations, 1999-2008*), display the spatial distribution of funding recipients. Over the course of the EZ program, it was essential to get funds into the hands of the community as quickly as possible, so that new funds could be requested at the federal level. These maps show the diverse array of activities that the EZ funded. There appear to be four areas of concentrated investment by the Minneapolis Empowerment Zone. The West Broadway corridor in North Minneapolis received intensive funding for community development and economic development ventures. The Near North side was a second area of concentrated funding, which included the initial phase of development of Heritage Park, along with other coordinated ventures stemming from the Near North Master Plan. The Franklin Avenue corridor between Hiawatha Ave. and Interstate 35W was a third area of investment. Loans and grants included investments in the Little Earth housing development, along with the Franklin/Portland Gateway project and the Green Institute. Map 2 shows that housing-related funding was particularly concentrated in this area. The fourth major funding area is located around the Midtown Exchange on Lake St. and Chicago Ave. Apart from the Midtown Exchange demonstration project, other major recipient organizations included the YMCA/Abbott Childcare Center, Plaza Verde and the Metropolitan Consortium of Community Developers.

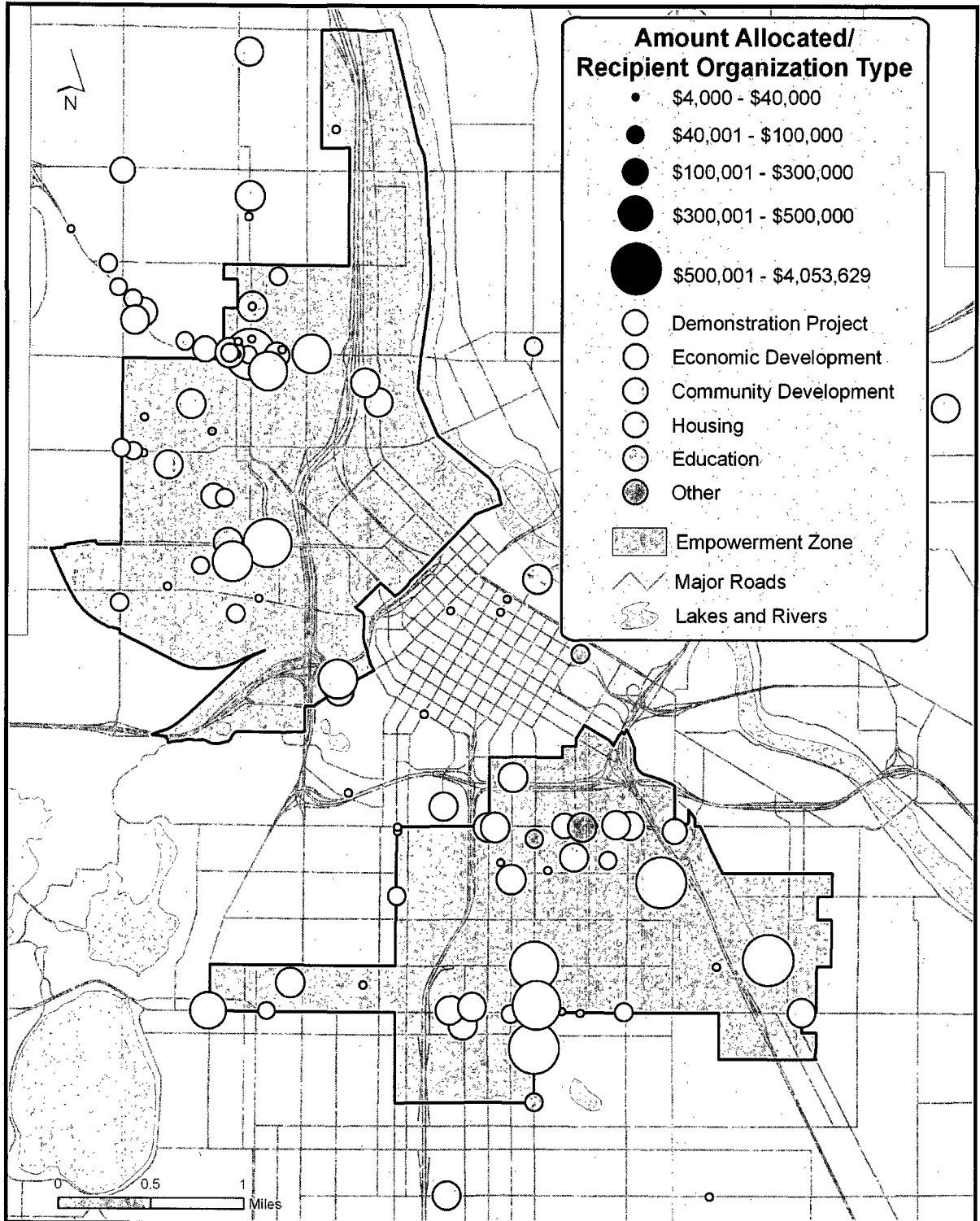
Empowerment Zone Funding Allocations, 1999-2008



Cartographer: Eli Popuch, March 2009. Data Sources: Minneapolis Empowerment Zone Office, Metropolitan Council.

Map 1.

Empowerment Zone Funding Allocations, 1999-2008



Cartographer: Eli Popuch, March 2009. Data Sources: Minneapolis Empowerment Zone Office, Metropolitan Council.

Map 2.

Minneapolis Empowerment Zone Controversy

From the time the City of Minneapolis was awarded funding, controversy hounded the program. Minneapolis has a rich history of neighborhood-level activism and participatory engagement, and many local activists felt as though the city was not giving them the chance to be actively involved in designing how EZ funds would be spent. There were multiple well-attended meetings that the EZ Office held in the early years of the program, but community participants felt that plans had already been made with regard to how funds would be spent. Councilman Lilligren, then an active community advocate, recalls the impression that some community members had:

“We thought ok, here is our chance if this were to be a community driven plan. In reality it was very much a report to the community. There are levels of community engagement and giving people information is sort of the lowest level. We thought going into this program that we would be main drivers of planning, but we were not.” (Lilligren interview notes, 2/10/09)

Over the duration of the program neighborhood activists maintained that the decision-making process was exclusionary and that the funding did not get into the hands of the Empowerment Zone population. Zach Metoyer, a neighborhood development consultant and local activists, echoed Mr. Lilligren’s sentiments, stating:

“Early on, the outreach as far as how best to expend the funds that were not already allocated for the three main projects - there was no planning put in place for that. The Governance Board gave grants to organizations that they were affiliated with or owned...I look at it as almost insider trading. They had the information, they knew that the money was there, they knew the process, but they did not go out into the community and tell everyone that the funding was there.” (Metoyer interview notes, 2/20/09)

While these criticisms have merit, the operational constraints of the Empowerment Zone program had much to do with the perceived lack of community participation. While HUD acquiesced to ideals of direct community participation and community decision-making in the founding documents of the EZ/EC initiative, once funding was on the table, cities were expected to spend the money efficiently. This meant that safer investments, like Heritage Park or the NDC, were favored over riskier

investments that may have been more commensurate with the ideals of direct community involvement. This was the constant paradox that the EZ Office faced. Bolstering community capacity is not simple and easy, and tangible effects are not easy to quantify. Yet, the government measuring system necessitated that direct outcomes be demonstrated from the investment. Don Samuels, Ward 5 Councilman and current Governance Board member articulated the difficulties of the EZ mission:

“When we participated in the national EZ conference, our director came back and said we were one of the best EZ programs in the country- our success rate is high, our records are good, people filled out their forms, we recycled the funds, we got a return on our funds. That’s how you measure success. Once you start doing that you start to minimize your risk, and once you start to minimize your risk you start to walk away from risky people, so now you are empowering already empowered people or partially empowered people.” (Samuels interview notes, 2/17/09)

Furthermore, the Minneapolis EZ program was criticized from the national level and within local government, despite it being considered one of the best-run Round II programs. A 2003 Office of the Inspector General report was highly critical of the measuring standards that the EZ Office had reported. The report found that there were inaccuracies related to certain recipient organizations progress on “projected outputs”, “completion milestones” and “funding use”. But the reasons for these inaccuracies were a fundamental result of the operational design of the program. Recipient organizations were required to keep detailed reports of how EZ funds were spent. This was then collected by the Minneapolis EZ office and sent to HUD. The problem in recording stemmed from the fact that when an organization would submit an RFP, they might inflate the number of residents that would be helped - either intentionally or because they simply could not project the outcome of a project that had yet to happen. So when the reports came back and fewer residents had been helped than initially projected, OIG was quite critical of the Minneapolis EZ Office (Havey interview notes, 2/24/09).

Minneapolis activists also contended that recipient organizations were not part of the intended target demographic that the EZ was designed to assist. A Minneapolis

Commission on Civil Rights investigation was conducted in 2004 over the alleged racial bias in the selection of RFP recipients. Local activists argued that the main demographic population in the EZ – low-income, non-White residents – was not receiving appropriate funding, and that the organizations that were receiving funding were already empowered. After a contentious year-long investigation, the MCCR found no issue of racial bias in the selection of funding recipients. While local activists were upset by the questionable level of community engagement, it was the operational constraints of the EZ program that made certain applications more favorable than others. The role of the zone office and Governance Board was to make sure that funds were spent effectively and quickly. Given the structure that the federal government created, there was a limit to how much time and money could be devoted to riskier ventures. However, those risky ventures – a local small business or a resident-based CDC – constitute true social capital development. Limiting the opportunities that these types of organizations had with respect to EZ funding was a shortcoming of the program. Yet, it was an inevitable shortcoming and one that reflected as much, if not more so, on the federal guidelines of the program as it did on the Minneapolis EZ Office. Councilman Samuels summed it up best when noting “even if we had put the most community connected people on the board, or a higher degree of low income people on the board, once they got there they’d be guided by the same rules that we were.” (Samuels interview notes, 2/17/09)

After 2005, with federal funding dwindling, the Minneapolis Empowerment Zone devised a strategic plan that focused more on executing micro-loans into the community. While these were not true micro-enterprise loans (\$500-\$5,000), the per capita funding amount was much smaller than in previous years. The reduction in funding from the Federal government meant that there was much less money to move around so the Governance Board looked at projects and organizations that were more cost-effective. Another change in the 2006-2009 planning framework was that the Governance Board

acknowledged that the areas located adjacent to the North Zone were in need of stabilization, so funding expanded outside of the original boundaries of the EZ.

Chapter V. Quantitative Results

The following section describes the results of GIS mapping and accompanying statistical analysis. As noted in the data and methodology section, the lack of comprehensive socio-demographic data made it impossible to create a complete assessment of neighborhood change. Apart from indicators such as poverty and unemployment, looking at residential patterns (i.e. length of residence in a particular location) can provide a much clearer look at what has happened in these neighborhoods since EZ designation. It is also important to consider that these maps and statistical analyses are designed to show change over a period of time (2002-2006). It would be incorrect to assert that neighborhood change, or lack thereof, is a result of the Empowerment Zone program, or that these findings prove or disprove the efficacy of place-based economic development programs. This oversimplification would be the same mistake that HUD and OIG have made in their coarse assessments of the Empowerment Zone program. While there are noticeable impacts that the EZ program has had on Minneapolis neighborhoods – these impacts include facilitating the Heritage Park and Midtown Exchange developments, getting funding money into the hands of community development organizations – there are many neighborhood changes that have nothing to do with the EZ. Because this study period ends in 2006, findings do not reflect the drastic neighborhood changes that have occurred as a result of the collapse of mortgage markets and the foreclosure crisis. In fact, the 2010 Census may not be an effective comparison measure by which to analyze EZ performance, as the socio-demographic makeup of marginalized areas may change drastically. The following sections are

divided by the type of data used in the map-making process, along with any statistical analyses that were performed.

Residential Area Characteristics

Residential Area Characteristics (RAC) contains information on the number of jobs held by residents of a particular block, as well as information on the industry sector, earnings level and age of the resident job-holder. A series of three maps were made charting changes in the residential area characteristics of the Empowerment Zone between 2002 and 2006. Map 3 (*Change in Total Zone Resident Jobs, 2002-2006*), reflects the change in the number of jobs held by residents of the EZ. This number merely reflects the changes in job-holding residents. It does not normalize for unemployment, or for population fluctuation of an area. Still, it is important to see if there were areas that saw an increase in job-holding residents during the time period. Across both the North and South sector of the zone, most blocks saw slight increases and decreases in the number of job-holders. These are represented by the light orange and light blue category. A negative number reflects a loss of job-holding residents, while a positive number signifies an influx.

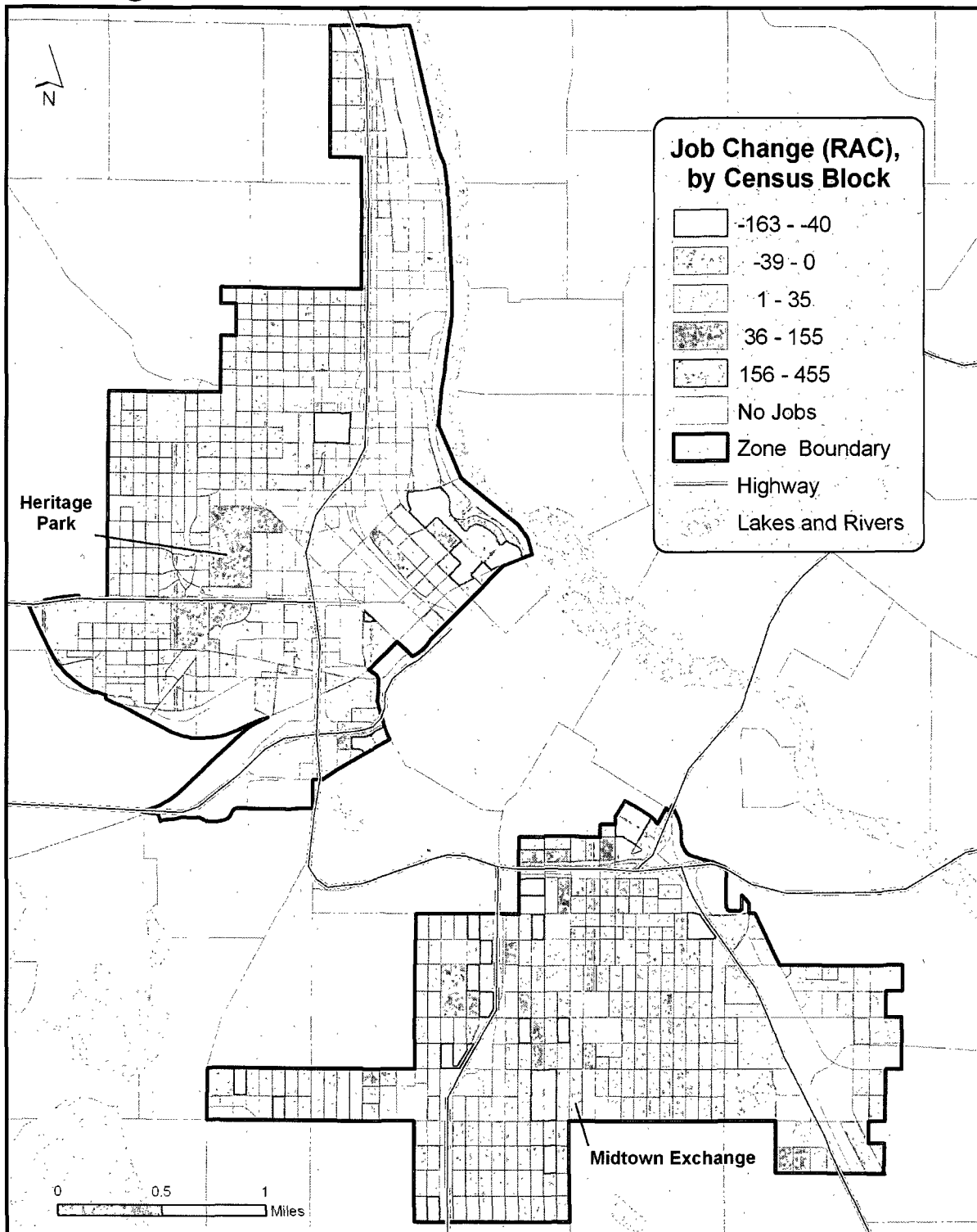
The Heritage Park block provided one of the largest increases in job-holding residents. Meanwhile, RAC dropped in the blocks surrounding the Midtown Exchange. The map also highlights the Warehouse District as an area of large resident influx over the four year period. Over the past decade the Warehouse district, located directly adjacent to the Central Business District of Minneapolis in the North EZ, has become a regentrified urban neighborhood. As business left the area, warehouses were transformed into loft spaces. In addition, new residential apartment developments have attracted a higher income population. This is a reflection of the district's proximity to the CBD and the Mississippi River. Because of the relatively recent influx of higher-

income residents, the neighborhood is markedly different than other parts of the Empowerment Zone.

Map 4 (*Change in Low-Income Resident Jobs, 2002-2006*) shows the change in EZ job-holders by block for low-income jobs only. Again there is a relative equilibrium in both Zones in terms of jobs lost and gained. The Warehouse district saw the largest decrease in low-income residents. Meanwhile, Heritage Park/Near North, Franklin Avenue and the area just west of Interstate 35W saw large increases in the number of low-income job-holding residents. These results could mean that some residents moved from having a low-income job to a higher income job during the time period. It could also mean that low-income residents left the neighborhood. The areas with dark blue shading could also mean that residents who were formerly unemployed had become job holding residents by 2006. While this is purely speculative, it is important to note that Franklin Avenue and Heritage Park were both areas of intensive EZ funding.

Map 5 (*Change in High-Income Zone Resident Jobs, 2002-2006*) shows the change in high-income resident job holders. The EZ showed considerable growth in this category between 2002 and 2006. The majority of block in both sectors had an increase in High-income residents. Of course, the high-income classification is a bit of a misnomer, as a resident who makes over \$40,800 falls into that category. Still, these rates suggest that new residents were moving into the area, particularly in Heritage Park and in the Warehouse District. It could also mean that the job opportunities and earnings levels for residents have increased to some extent. Comparing Map 5 to Map 3 shows that blocks that had a positive job change usually had a positive increase in high-income earning residents. However, it should be noted that for much of the zone this increase is only between one and twenty six residents.

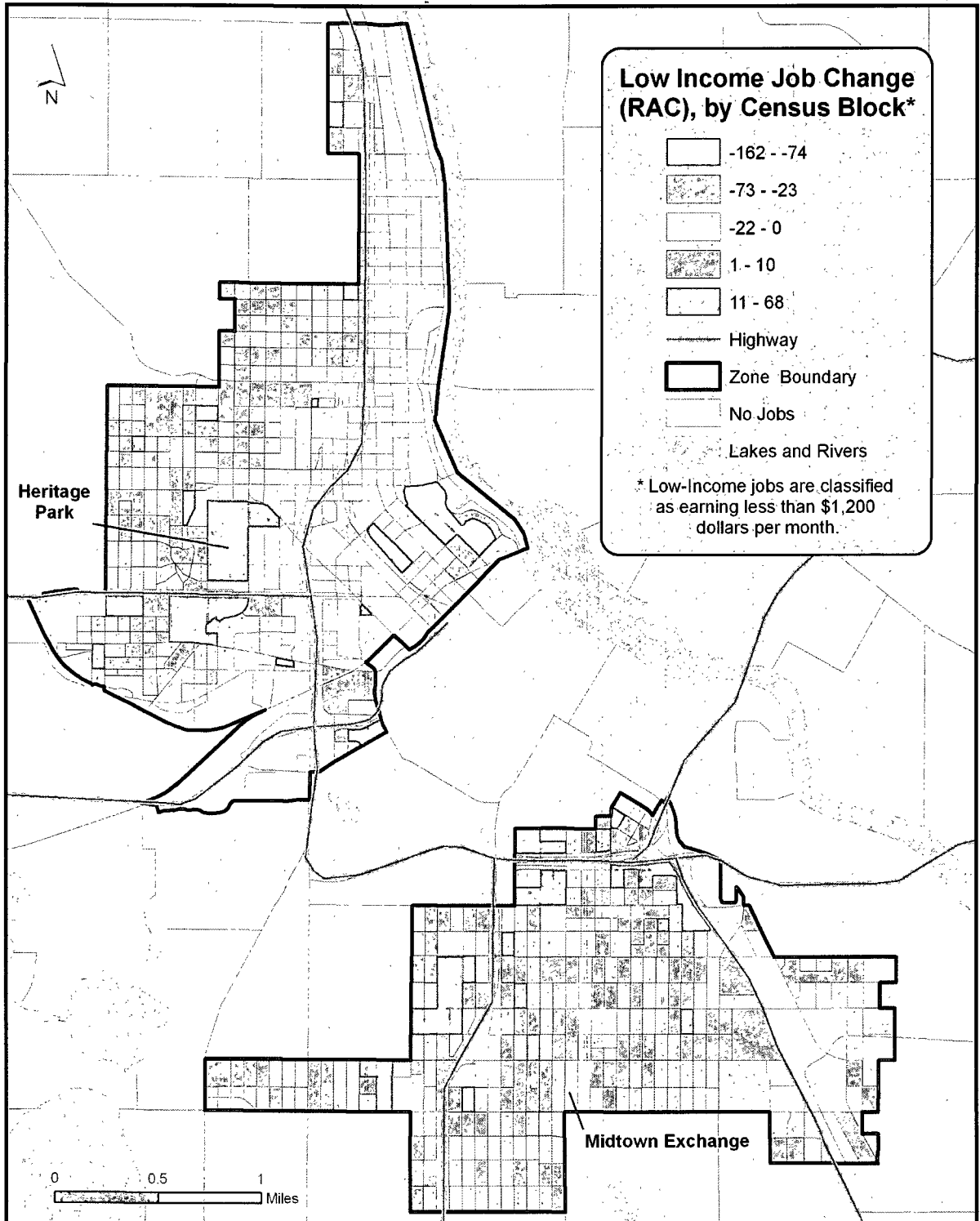
Change in Total Zone Resident Jobs, 2002-2006



Cartographer: Eli Popuch, March 2009. Data Sources: Cornell University Research Data Center, Minnesota Department of Employment and Economic Development, Metropolitan Council.

Map 3.

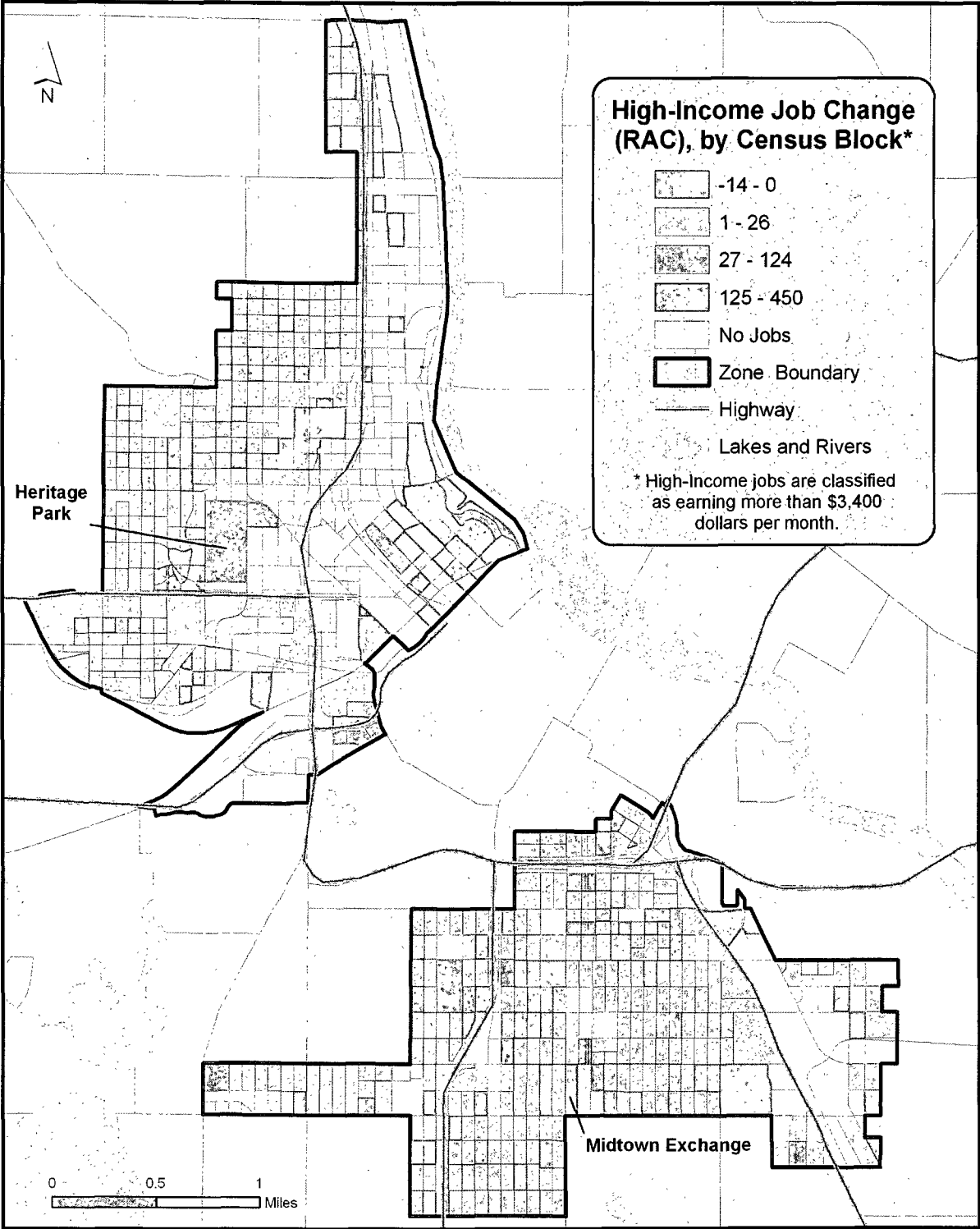
Change in Low-Income Zone Resident Jobs, 2002-2006



Cartographer: Eli Popuch, March 2009. Data Sources: Cornell University Research Data Center, Minnesota Department of Employment and Economic Development, Metropolitan Council.

Map 4.

Change in High-Income Zone Resident Jobs, 2002-2006



Cartographer: Eli Popuch, March 2009. Data Sources: Cornell University Research Data Center, Minnesota Department of Employment and Economic Development, Metropolitan Council.

Map 5.

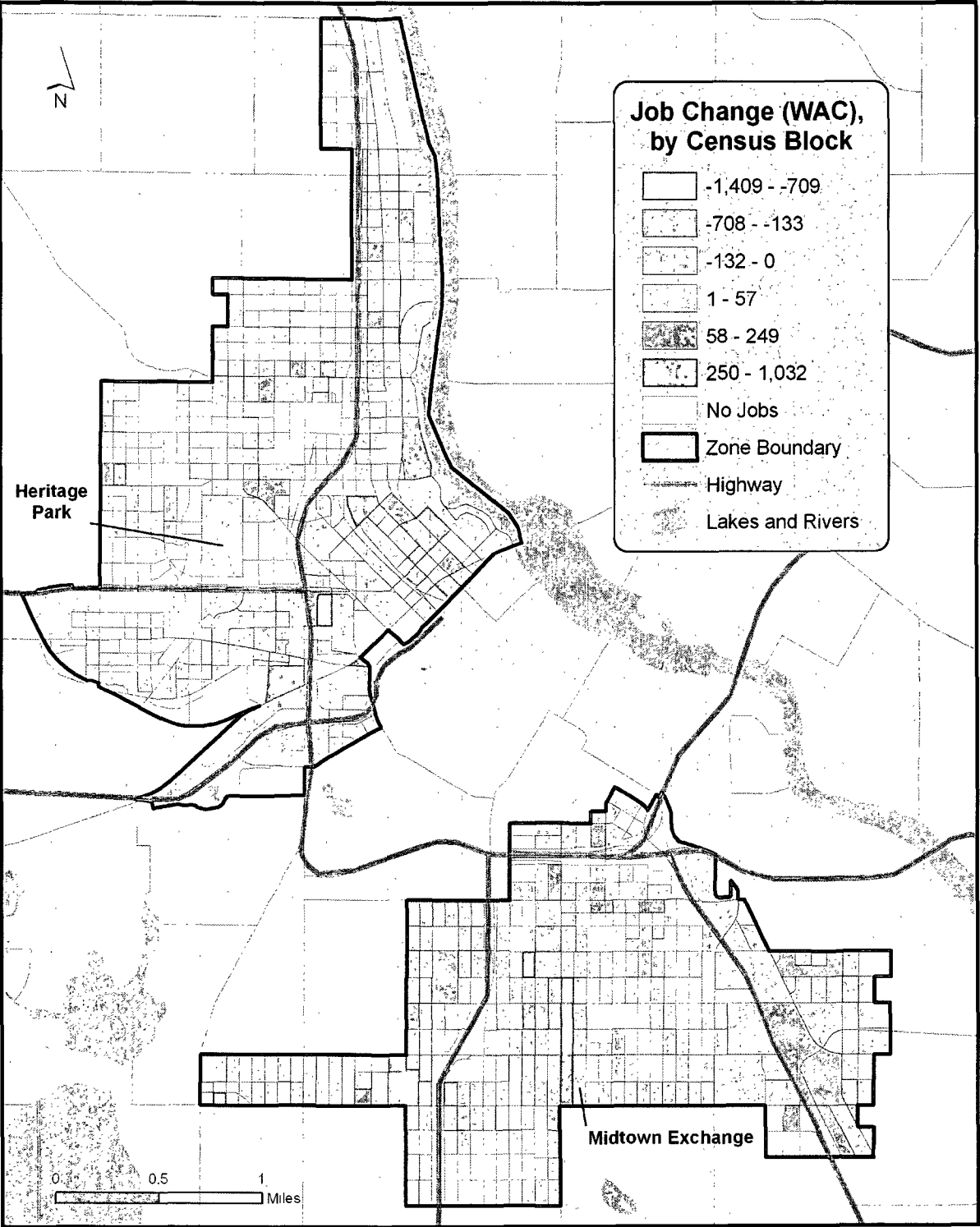
Work Area Characteristics

Work Area Characteristics (WAC) contains information on the types of jobs that are located in a particular block. Map 6 (*Change in Employment Availability in Empowerment Zone, 2002-2006*), highlights the change in the number of jobs located in the Empowerment Zone. The map shows a pattern of job loss in many parts of the Empowerment Zone. While there are only five blocks in the darkest red category, a number of blocks lost between one and thirty-two jobs during the period. There is no distinct spatial pattern to job loss and job growth, although the Warehouse District saw a large decrease in jobs as it moved away from a business intensive neighborhood. Interestingly, new jobs moved into some parts of the district as new retail shops were developed to supply the needs of new residents. The Midtown Exchange area did witness a growth in jobs, probably as a result of the Sheraton Hotel and Allina Health Care. The Midtown Global Market opened in June of 2006, just after this data was collected. However, these jobs were offset by job cuts at Abbott/Northwestern Hospital, located in the block north and west of the Midtown Exchange. Finally, the area along Lake St. east of Hiawatha Ave. saw a large increase in jobs. There are numerous supermarkets, big box stores and retail chains in there two blocks.

Map 7 (*Change in Low-Wage Employment Availability in Empowerment Zone, 2002-2006*) depicts the change in low-wage jobs in the EZ between 2002 and 2006; again, there was a general loss of low-wage jobs. It is important to note that many blocks in the EZ are purely residential or have no jobs during either year. Map 8 (*Change in High-Wage Employment Availability in Empowerment Zone, 2002-2006*) depicts the change in high-wage job availability in the EZ. This map shows that many EZ neighborhoods lost high-wage jobs, even as high-wage earners were moving into the area. Only

Abbott/Northwestern Hospital and the Midtown Exchange showed a consistent increase in high-income jobs.

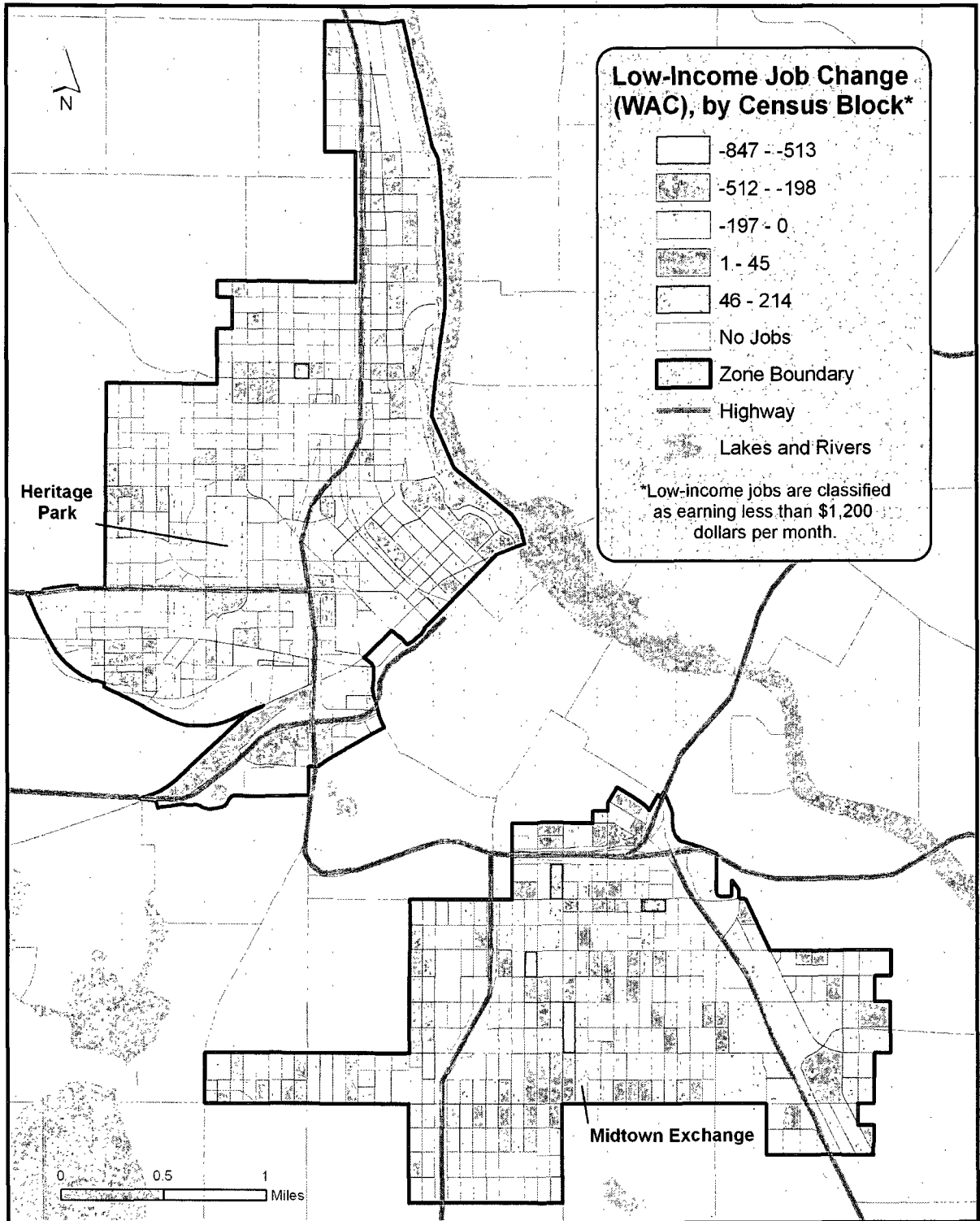
Change in Employment Availability in Empowerment Zone, 2002-2006



Cartographer: Eli Popuch, March 2009. Data Sources: Cornell University Research Data Center, Minnesota Department of Employment and Economic Development, Metropolitan Council.

Map 6.

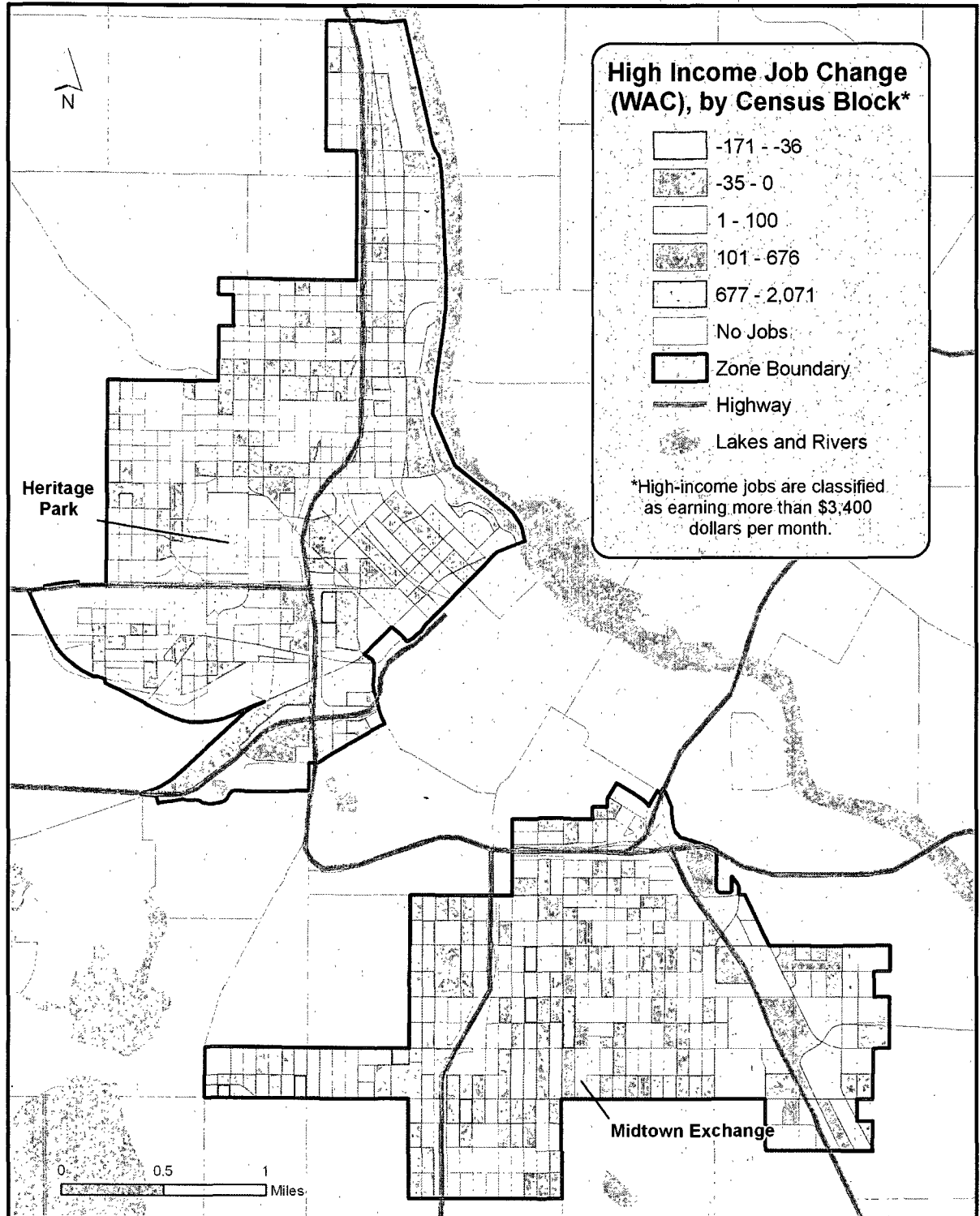
Change in Low-Wage Employment Availability in Empowerment Zone, 2002-2006



Cartographer: Eli Popuch, March 2009. Data Sources: Cornell University Research Data Center, Minnesota Department of Employment and Economic Development, Metropolitan Council.

Map 7.

Change in High-Wage Employment Availability in Empowerment Zone, 2002-2006



Cartographer: Eli Popuch, March 2009 Data Sources: Cornell University Research Data Center, Minnesota Department of Employment and Economic Development, Metropolitan Council.

Map 8.

Shift-Share Analysis

The shift-share analysis is one of the most common methods to assess relative job gains and job losses between two periods of time. Most shift-shares focus on the changing dynamics of metropolitan labor markets as compared to the national labor market. However, using RAC and WAC data between 2002 and 2006, it was possible to execute a shift-share analysis that compared job growth and decline in the Empowerment Zone versus the entire city of Minneapolis. This changes the scale of the analysis, but the outcome still provides insight into the labor market changes that occurred. Because RAC and WAC data contain information on industry type and earnings level, it was possible to examine how many and what kinds of jobs entered the EZ during the period. The shift share has two components, the mix-effect and local growth effect.

The mix effect studies the specialization of specific industry within a region. For this analysis, the mix effect formula is:

$$(\text{Minneapolis Growth Rate for a particular sector} - \text{Minneapolis G.R. for all sectors}) * \text{Total 2002 Sector Employment in the Empowerment Zone.}$$

The local-growth effect compares growth in employment in an industry sector at the local level (in this case, the EZ) to growth at the macro level (in this case, the city of Minneapolis). The local-growth formula is:

$$(\text{Empowerment Zone G. R. for a particular sector} - \text{Minneapolis G.R. for a particular sector}) * \text{Total 2002 Sector Employment in the Empowerment Zone.}$$

The shift-share technique was executed using RAC and WAC data, as each shows a different labor market dynamic. Using RAC, shift-share will show the influx or exodus of job holding residents in the Empowerment Zone. Using WAC, shift-share displays the number of jobs or employment opportunities that left the area. RAC shift-share results showed that the city of Minneapolis maintained a virtual equilibrium of job-holding

residents between 2002 and 2006. There was an increase of five jobs, or a .003% increase. Comparatively, the number of job holding resident in the EZ skyrocketed, increasing by 6.33% (please refer to Table 1 for full results. Sectors that saw the largest percent increases included the Professional, Scientific and Technical industry; the Retail industry; the finance and insurance industry; and the education industry. Government/Public Administration, Construction, Information, and Waste Management saw the largest percentage drops in the Empowerment Zone. The shift share shows that 1,075 job-holding residents entered the EZ during this time period. Most of that came from the local growth effect (1,031 jobs). Industries that had the highest percentage growth generally had the highest influx of jobs (See Table 2. for details).

Earnings level categories were also incorporated in the shift-share analysis. Over the 4 year period, high-wage jobs in both Minneapolis and the EZ increased by more than 250%. This is a reflection of the growing economy of the area between 2002 and 2006. The EZ saw an influx of 3,485 job holding residents. However, this was offset by losses to middle and low-wage earners. Clearly, the EZ was a changing area, although it is impossible to ascertain if this increase in high-wage earners was a result of new resident in-migration or because of wage increases to the preexisting population. Please refer to Tables 3 and 4 for a full list of results.

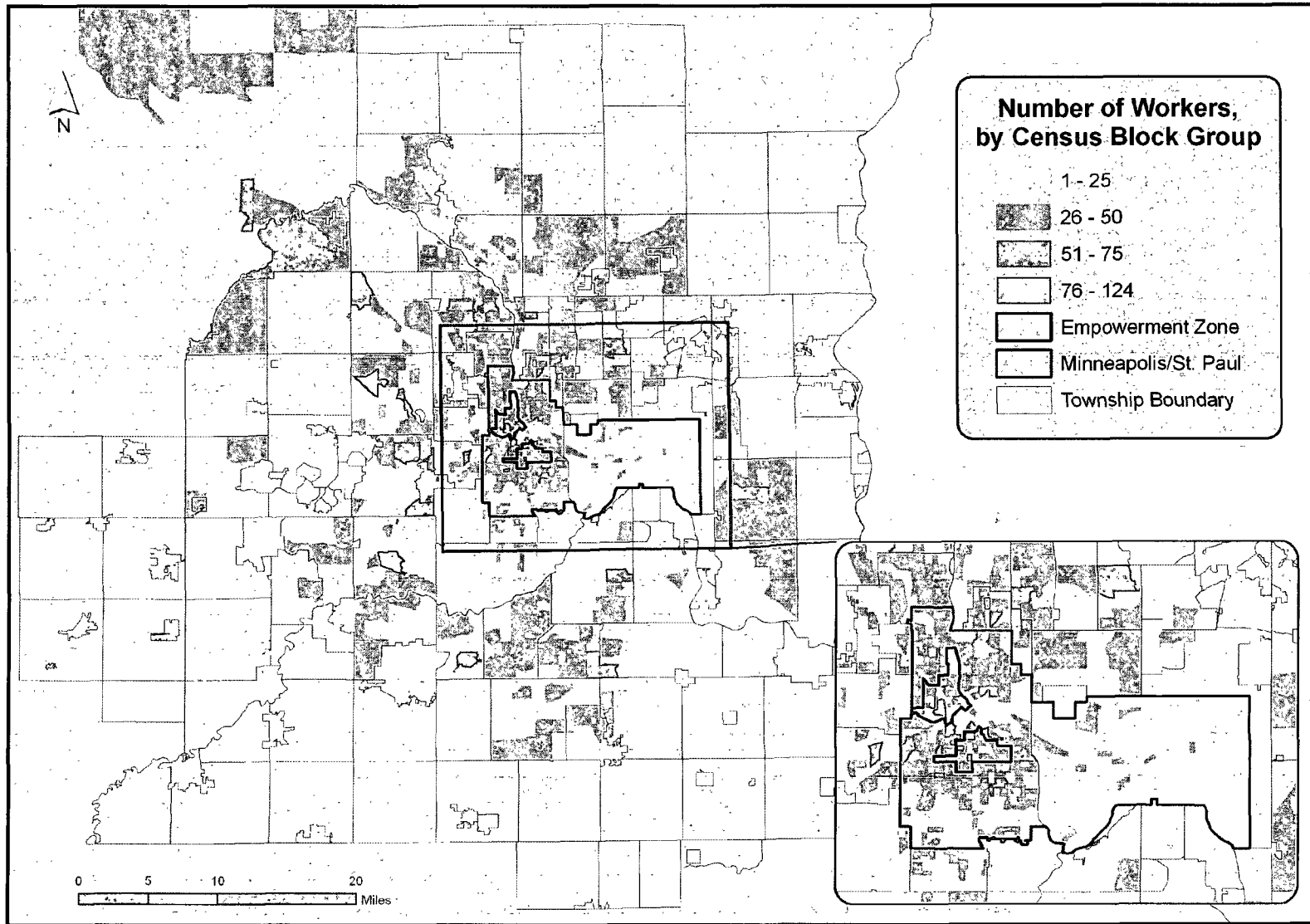
The second shift-share analysis used WAC data to assess the change in the number of jobs located in Empowerment Zones. The results of this analysis show that the labor market in both Minneapolis and the EZ was shrinking between 2002 and 2006. Minneapolis lost 11.19% percent of its total jobs during the period. Even though there was an influx of job-holding residents during the period, around 32,000 jobs left the city limits. These findings alone support the notion of urban spatial mismatch. The situation was equally dire within the EZ, which saw a decrease of 16.47%, or 7,453 jobs. The biggest job losses occurred in the Retail, Construction, Food Service and Management

Industry. Please refer to Tables 5 and 6 for a full list of results. There was a net loss of 2,389 jobs in the Empowerment Zone. While some industries like Education Services showed modest job growth, this was offset by massive losses in the Health Care and Retail fields. Interestingly, the breakdown by earnings level shows that there was an inward shift of 11,648 high-wage jobs during the period. However, there was an outward shift of 10,287 middle-earnings jobs. The missing piece to the puzzle is who was occupying these high-wage jobs. Given the persistent lack of job-force development and social capital in EZ neighborhoods, it could be argued that zone residents did not benefit from the creation of high-wage jobs. However, without further data analysis, this is purely speculation.

Origin-Destination Data

Origin-Destination (O-D) Data is a matrix that combines the home block location of a worker with his/her work block. The data is very helpful in showing the distribution of jobs and workers across a metropolitan area. Using 2006 O-D data aggregated to the block group geography, the work location of EZ residents and the home location of EZ workers was mapped. Map 9 (*Home Block Location of Empowerment Zone Workers, 2006*), depicts the home block group of all workers whose job falls within the Empowerment Zone. There is a wide distribution of the home locations of EZ workers, as many workers commute from second or third tier suburbs and some even commute from outside of the seven county metropolitan area. This pattern suggests that many of the jobs in the EZ are held by workers those who do not live in the EZ. Still, there are a fair amount of workers who both live and work in the EZ, as evidenced by the inset map.

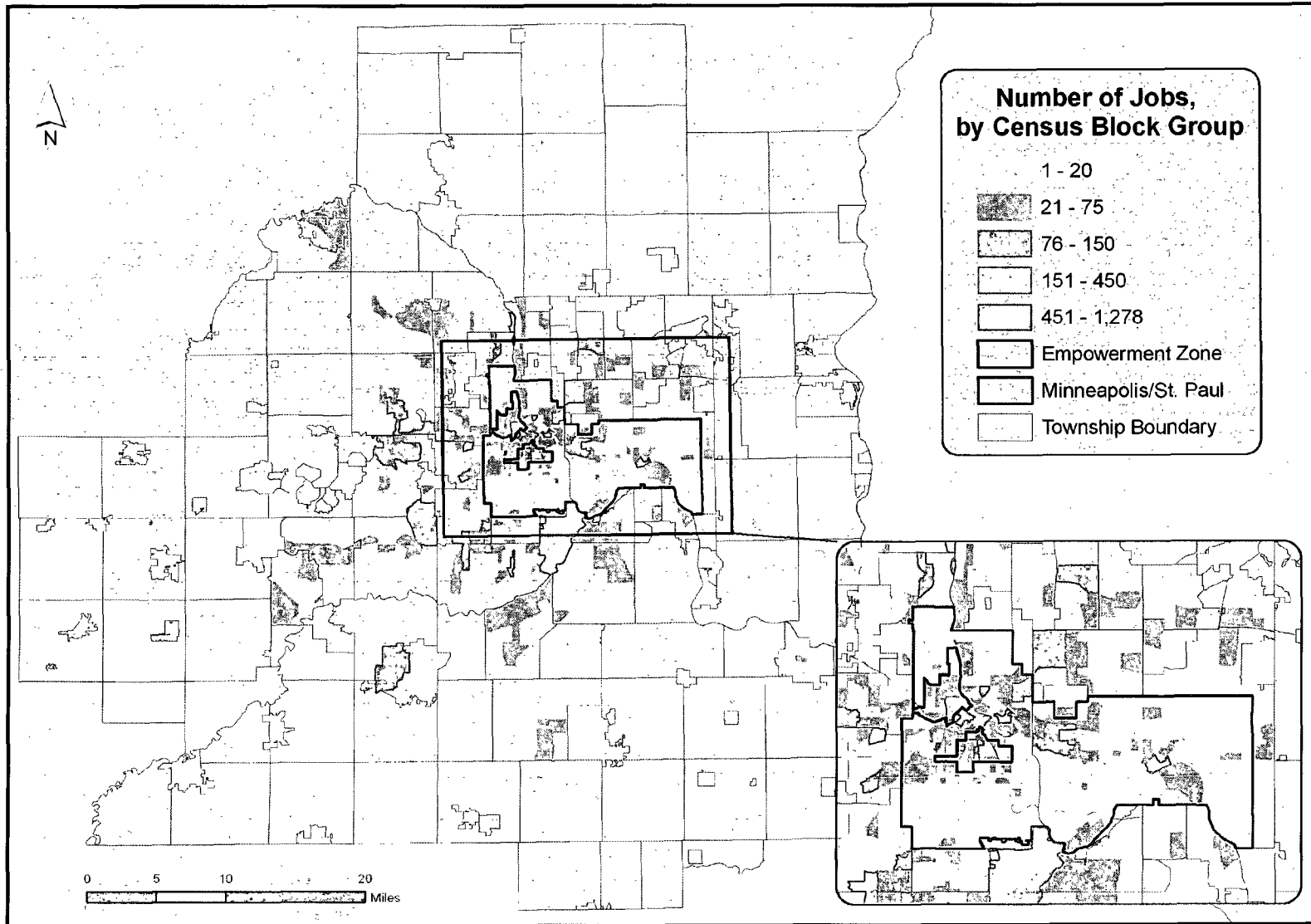
Home Block Group Location of Empowerment Zone Workers, 2006



Cartographer: Eli Popuch, April 2009 Data Source: Minnesota Department of Employment and Economic Development

Map 9.

Work Location of Employed Empowerment Zone Residents, 2006



Cartographer: Eli Popuch, April 2009 Data Source: Minnesota Department of Employment and Economic Development

Map 10.

Map 10 (*Work Location of Employed Empowerment Zone Residents, 2006*), shows the work block groups of residents of the Empowerment Zone. A high number of residents work within the central city, most notably in the CDB and at the University of Minnesota. Another major employment location is the Minneapolis/St. Paul Airport and the Mall of America; both are located directly south of the city limits. Yet, there is a fairly large dispersion of residents who work in first and second tier suburbs. This finding is also commensurate with the spatial mismatch hypothesis, as a lack of automobile access may force workers to work in areas in close proximity to transportation networks.

GIS spatial analysis was used to determine the spatial proximity of jobs to the empowerment zone. For every block group where an EZ resident worked, a centroid "point" shapefile was created. A spatial join was executed with the Empowerment Zone boundary. In the new shapefile, all centroid points that fell within the boundary have "0" value for no distance. All points that fall outside of the boundary are given a column that measures distance to the boundary. From this, the distance of jobs from the EZ boundary was established. This technique is a fairly coarse measure in that it does not consider the exact distance between a home block group and a work block group, but it does provide a good measure of the spatial distribution of EZ resident jobs. Table 9 shows the spatial distribution of jobs by earnings type. Figure 3 displays the spatial distribution of jobs as a percent of total, while Figure 4 shows the distribution of low-income jobs only. These graphs are similar to the map in that the largest employment centers are just outside the Empowerment Zone (in the CBD of Minneapolis and at the University of Minnesota) and within a 5-10 mile radius (Minneapolis/St. Paul Airport, and other first and second tier suburbs). However, there is not a significant difference between the distance of low-income jobs from the EZ and the distance of all jobs from the EZ.

Distance From Empowerment Zone	Earnings Low	Earnings Middle	Earnings High	Total
In Zone	1,005	1,155	374	2,534
Within 1 mile	1,839	2,322	1,612	5,773
1-3 Miles	988	1,332	505	2,825
3-5 Miles	918	992	455	2,365
5-10 Miles	1,829	2,188	1,479	5,496
10-20 Miles	388	586	550	1,524
20-50 Miles	115	139	113	367
50-100 Miles	164	201	112	477
More than 100 Miles	150	63	81	294
Total	7,396	8,978	5,281	21,655

Table 9. Distance of Empowerment Zone Resident Jobs from Empowerment Zone

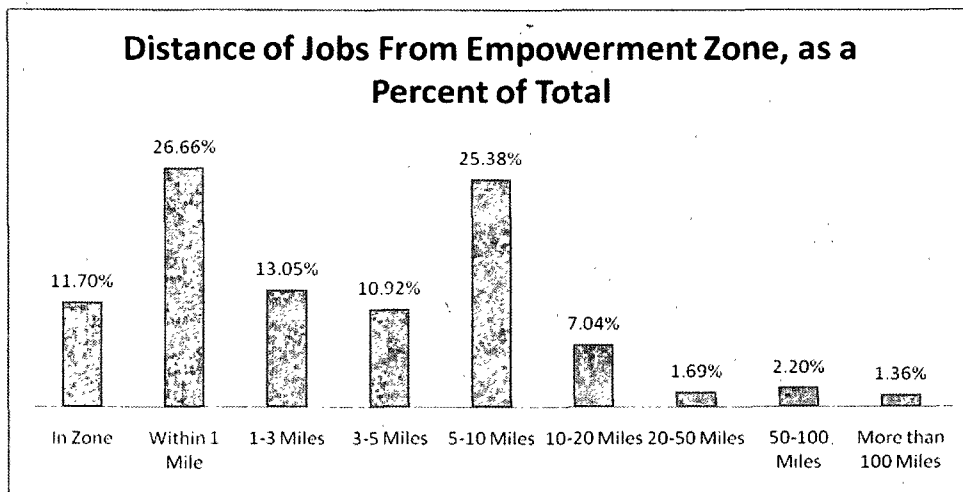


Fig 3. Job Distance From Empowerment Zone

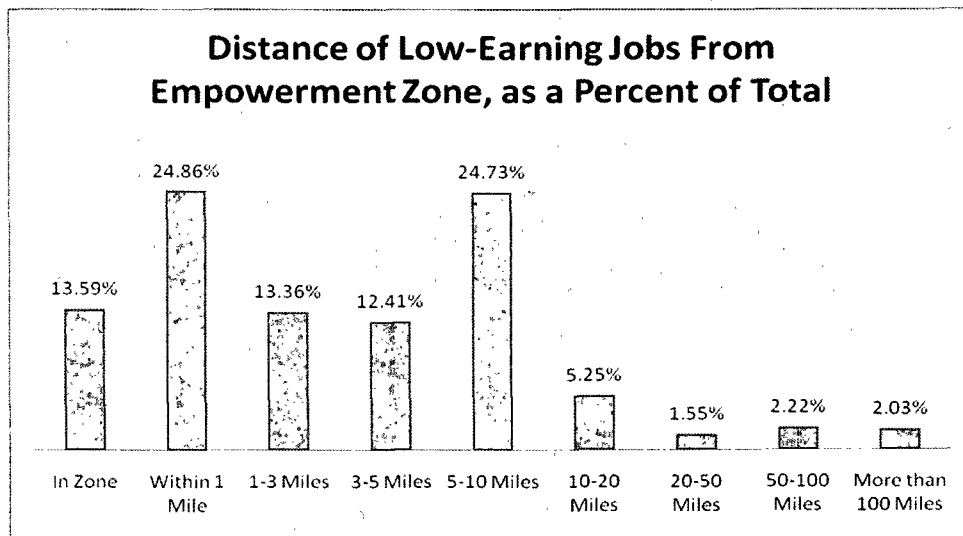
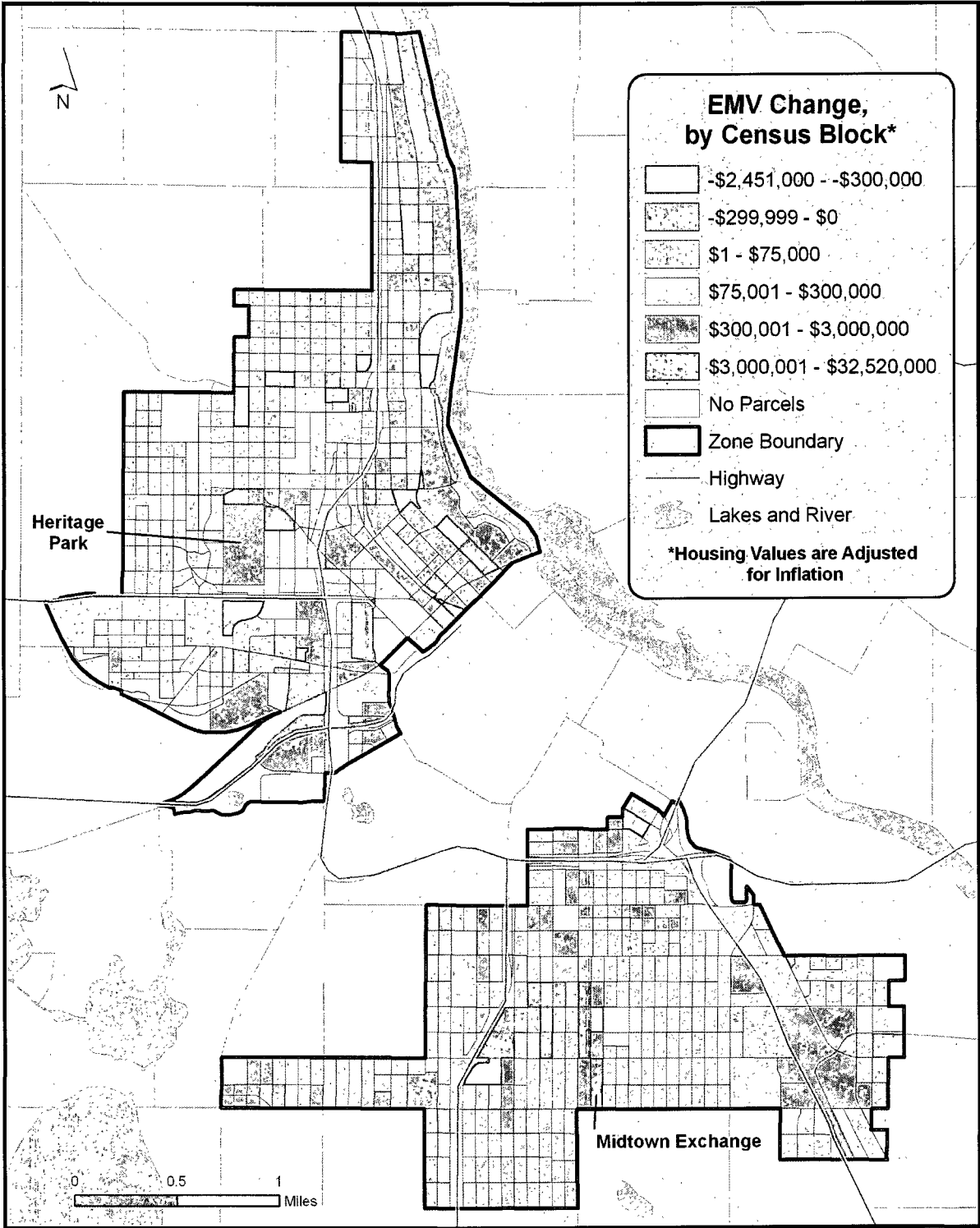


Fig 4. Low-Earning Job Distance from Empowerment Zone

Minneapolis Parcel Data

Parcel data contains a number of important variables that can be used to assess the housing market dynamics of Empowerment Zone neighborhoods. Three types of data – estimated market value of properties, homeownership rates and housing vacancy rates – were compared between 2002 and 2006. Estimated market value (EMV) records come in three forms: one record for building value, one record for land value and one combined record. The rate of change of the total EMV of properties was mapped between 2002 and 2006. A spatial join was used to aggregate individual parcel records to the block level. The resulting output gives the average total EMV for a block – that is, the total price of all buildings divided by the total number of buildings per block. The first map in this series, *Changes in Average Estimated Market Value, 2002-2006*, shows the block-level change in market price in the Empowerment Zone. All building types, including commercial and rental spaces were included in this evaluation. Overall, there was an appreciation of property values in the EZ. The south zone was bolstered by the development of the Midtown Exchange and the adjacent Allina Healthcare headquarters. The Honeywell headquarters, located in a three-block area adjacent to Interstate 35W, was another major development site that underwent rapid market rate appreciation. While both the North and South Zone saw increasing property values, the South Zone appreciated at a much higher rate. As evidenced by the light yellow coloration, the mainly residential areas of the North Zone witnessed a much smaller increase in property value. Along the river, the light industrial district saw a mix of increasing and decreasing property values. As expected, the EMV of parcels in the Warehouse District appreciated quickly as a result of the transformation to loft spaces. If the study period of the project were to expand, the EMV of properties might look drastically different in light of changes to the valuation of the housing market.

Change in Average Estimated Market Value, 2002-2006



Cartographer: Eli Popuch, March 2009. Data Source: Metro GIS, City of Minneapolis, Metropolitan Council

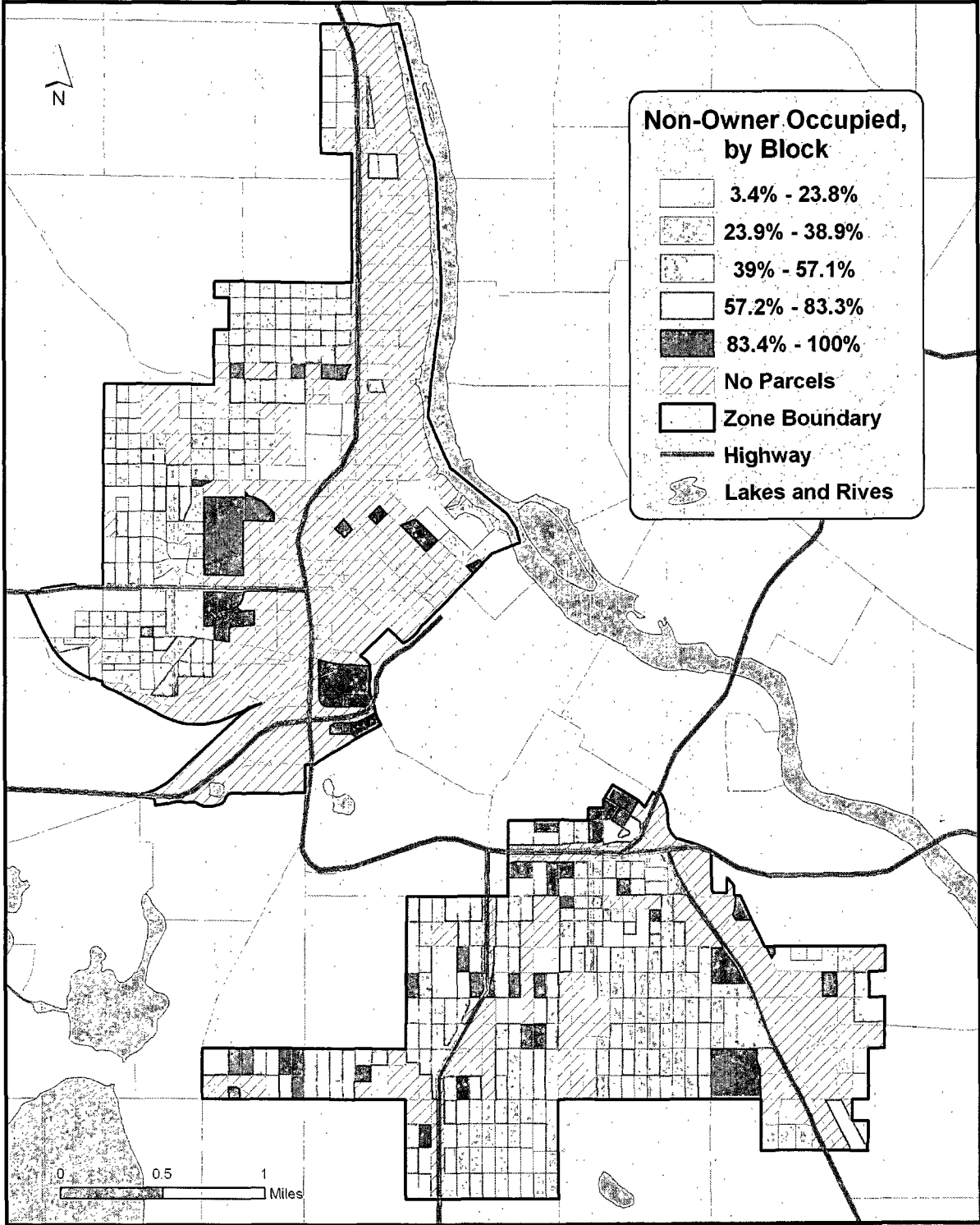
Map 11.

Parcel data were also used to map the percent of owner-occupied housing in the Empowerment Zone. The parcel shapefiles contains a data category that specifies if the property was homesteaded. Homesteaded properties are considered owner occupied, although there are potential data errors as some landlords may homestead a property in order to get homeowner tax-credits without actually living on-site. There was also a large amount of data cleanup that went into the production of this series of maps. First, the data was parsed to show only properties that were not tax-exempt. Then, only properties that were classified as residential, duplex, triplex, apartments or affordable housing were used because including commercial parcels where no residents live would obscure the findings. There were problems with this technique, however, as the City of Minneapolis only began to keep records on the land use description of properties after 2004. The 2002 parcel dataset was first parsed by tax-exempt status and was then joined with 2004 parcel data that only contained residential parcels (residential parcels include duplex, triple and apartments). A spatial join was created between the two parcel files so that 2002 parcel data would have a category for land use type. There are some data errors that came up in this exercise, as some parcels that were classified as residential in 2004 may have been non-residential parcels in 2002. After the 2002 parcel layer was assigned a land use type, the data was again parsed to include only residential areas that were not homesteaded. A spatial join then matched the 2002 non-owner occupied parcel shapefile with the 2002 block-shapefile. Because the spatial join produces a column that has a count of the number of parcels per block, the count of non-owner occupied parcels was divided by the total count of parcels, resulting in Map 12 (*Percent Non-Owner Occupied Housing, 2002*). With the exception of the Heritage Park block, the North Zone had fairly high homeownership rate, while the South Zone had higher levels of rental housing. The north and west ends of the South Zone had the highest

concentrations of rental housing, while area adjacent to Powderhorn Lake had higher levels owner occupied housing stock.

Map 13 (*Percent Non-Owner Occupied Housing, 2006*), shows that non-owner occupied housing stock became much more prevalent over the four year study period. The development of Heritage Park is one of the reasons for this shift, but preexisting residential areas of the North and South Zone also saw a dramatic increase in non-owner occupied housing. Blocks to the north and west of Heritage Park are a darker color in 2006 as compared to 2002. Also, the prevalence of non-owner occupied housing intensified in the South Zone during the study period. A potential reason for this influx is the continued growth of the immigrant-renter population in south Minneapolis. This shift to rental-occupied housing might also be a reflection of the rise in foreclosures that began to occur around 2006. As properties were foreclosed, former home-owners either left the area or began to rent from investor owned properties. If the study period were expanded, it is probable that the rate of non-owner occupied properties would increase dramatically. Therefore, any new urban policy initiative should consider the implications of the foreclosure crisis on marginalized urban areas.

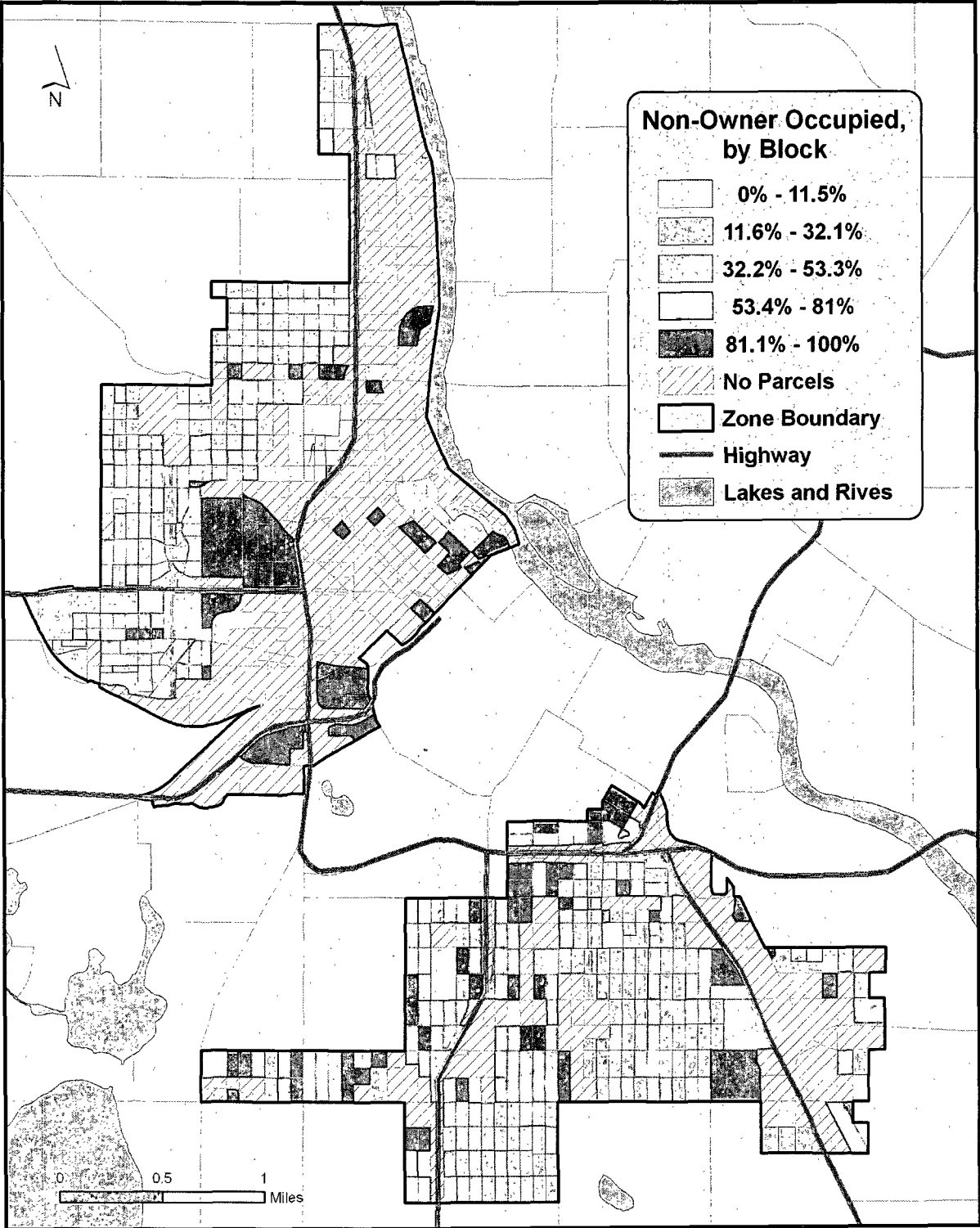
Percent Non-Owner Occupied Housing, 2002



Cartographer: Eli Popuch, March 2009. Data Source: Metro GIS, City of Minneapolis, Metropolitan Council

Map 12.

Percent Non-Owner Occupied Housing, 2006

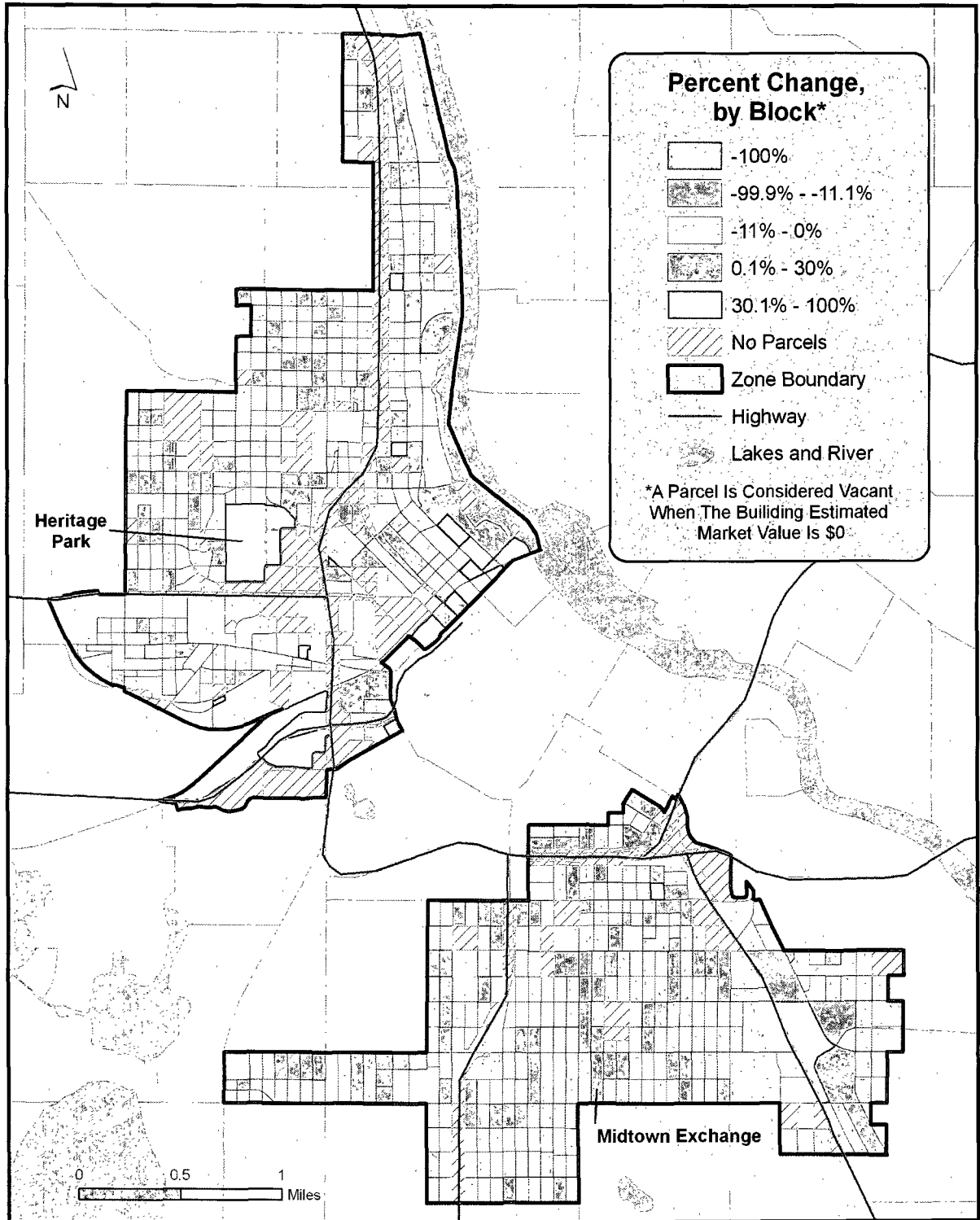


Cartographer: Eli Popuch, March 2009. Data Source: Metro GIS, City of Minneapolis, Metropolitan Council

Map 13.

The vacancy rates of EZ neighborhoods were mapped using the “EMV of buildings” column. If the EMV of a building was \$0, the parcel was considered vacant. This is a fairly coarse measure to examine vacancies, but it is one of the few tools that researchers can use between the US Census. Map 14 (*Percent Change in Vacant Parcels by Block, 2002-2006*), shows the rate of change in buildings with no EMV between 2002 and 2006. Most areas saw no changes or slight decreases in the percent of vacant properties by block. Heritage Park had a high vacancy because it was under development at the time. In fact, most of the blocks in the dark red color category were undergoing large development projects, while most of the blocks that saw a decrease in vacancies were actual residential blocks. This positive change suggests that the land market was tightening during the study period.

Percent Change in Vacant Parcels, 2002-2006



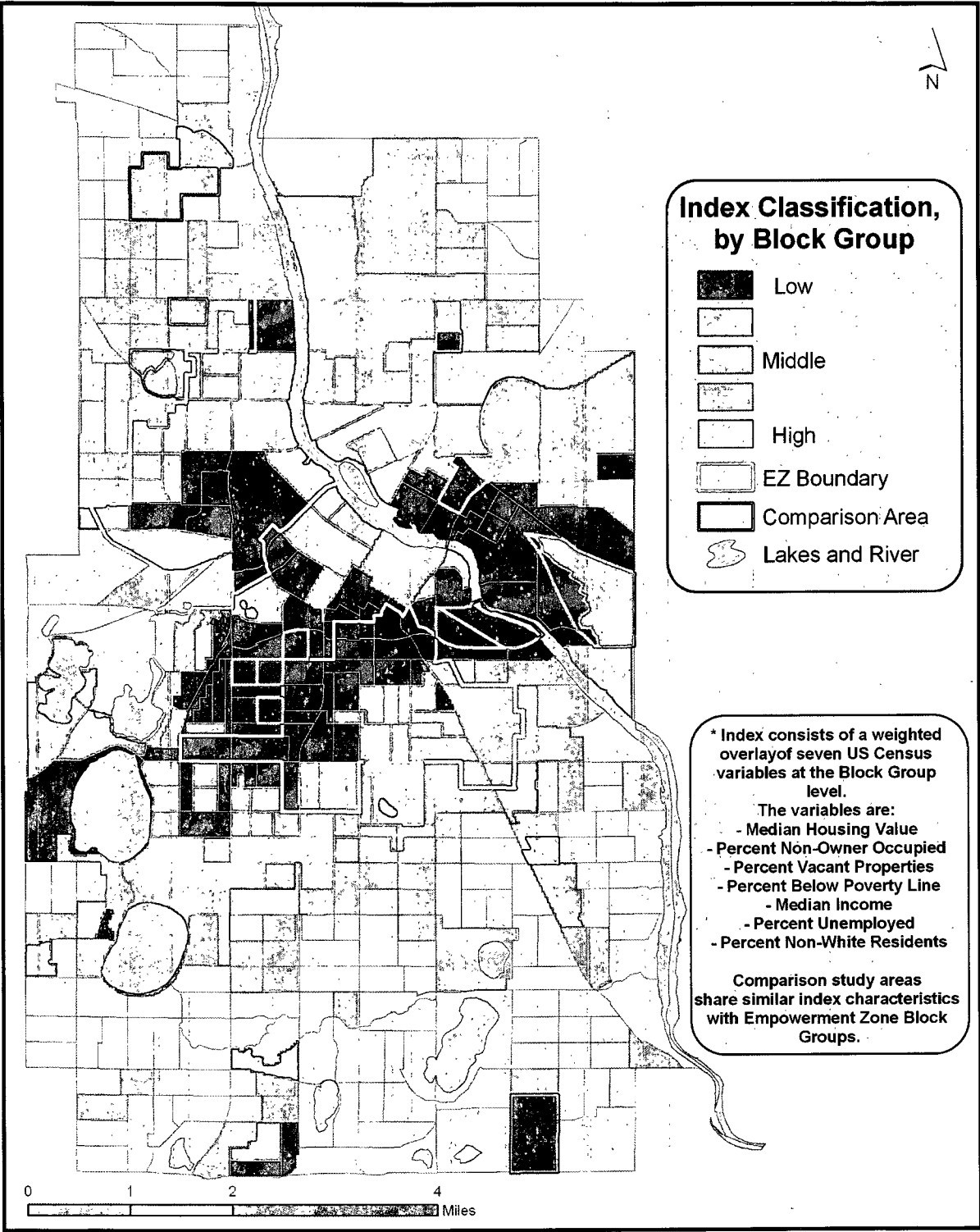
Cartographer: Eli Popuch, March 2009. Data Source: Metro GIS, City of Minneapolis, Metropolitan Council

Map 14.

Socio-Economic Index and Comparison Study Areas

Most quantitative studies, including Oakley and Tsao (2006, 2007) have compared the socio-economic changes in Empowerment Zone neighborhoods to changes in areas with similar socio-economic characteristics. Map 15 (*Minneapolis Housing and Socio-Economic Index*), mapped seven variables from the 2000 US Census to identify the socio-economic conditions of EZ neighborhoods at the time of Zone designation. The seven variables – median housing value; percent non-owner occupied units; percent vacant properties; percent in poverty; median income; percent unemployed; and percent non-White residents, are part of the Summary File-3 section of the US Census. This information was aggregated to the Block Group geography for the entire city of Minneapolis and was then joined to a Block Group shapefile. The feature-class shapefile was then converted to a raster file and a weighted overlay was executed. The weighted overlay aggregates the characteristics of all raster shapefiles into a comprehensive index, allowing for a multivariate analysis of the socio-economic characteristics of an area. Map 15 shows that the Empowerment Zone planners did a good job of identifying areas in need of renewal in Minneapolis. While there was definite variation with the zone, many zone block groups fell into the lowest index classification. It should be noted that the high levels of rental-housing and low median income around University of Minnesota student neighborhoods serve to obscure map findings.

Minneapolis Housing and Socio-Economic Index*



Cartographer: Eli Popuch, March 2009. Data Source: US Census, Metropolitan Council.

Map 15.

Difference of Means T-testing

The index also identified areas with similar neighborhood demographic characteristics to those of the EZ. Twenty-three comparison block groups were selected and a difference of means t-test was employed to measure the difference in the mean rates of change for neighborhood area demographic variables. The variables selected were mean percent change in RAC (2002-2006); mean percent change in WAC (2002-2006); mean percent change in EMV (2002-2006); and mean percent change in vacant properties (2002-2006). Housing tenure was excluded from the analysis because of the aforementioned data reliability issues. The results show that only the percent change in Work Area Characteristics was statistically significantly different between Zone Block Groups and comparison Block Groups. Unfortunately, this result showed that jobs left the EZ at a higher rate than they did in comparison areas. It should be noted, however, that the variance in mean rates of change in the EZ was much higher than in comparison Block Groups. This signifies that some areas of the EZ did change dramatically during the study period, but it was not enough to achieve statistical significance.

	Empowerment Zone Block Groups (n=58)		Comparison Block Groups (n=23)		T-Test (df=79)		
	Mean Percent Growth, 2002-2006	Variance	Mean Percent Growth, 2002-2006	Variance	Standard Error	t-score	p-value
Residential Area Characteristics	9.0434%	0.3714	0.0603%	0.0501	0.1308	-0.2300	0.4093
Work Area Characteristics	-7.4559%	0.2902	-0.2466%	0.0951	0.0581	-2.9598	0.0020**
Average Estimated Market Value	55.2682%	0.3806	0.4048%	0.0830	0.1345	-1.1001	0.1373
Percent Vacant Parcels	2.4029%	0.0207	0.0001%	0.0011	0.0304	-0.7934	0.2150

*Table 10. Difference of Means T-test results, ** Denotes statistical significance*

Chapter VI. Policy Recommendations

At the time of writing, the Minneapolis Empowerment Zone is in the close out phase of the program. Two final RFPs were allocated funding in September of 2008, but at present no money remains for community projects. One must now consider what can be learned from the Minneapolis Empowerment Zone experience and how can future policy be improved. The need for empowerment in marginalized urban neighborhoods has not gone away over the past decade, even as these neighborhoods undergo demographic change. If anything, the foreclosure crisis and the deflation of urban housing markets have created a higher need for effective neighborhood revitalization strategies. The following policy recommendations are intended to inform how future place-based strategies can be improved.

First, while the Minneapolis EZ was by and large successful in inserting its funding into effective projects, it is difficult to say if the program was successful in empowering large segments of the marginalized EZ population. This failure is as much a fault of the Minneapolis EZ as it is the federal government. The federal reporting standards were far too regimented over the duration of the program. Building community capacity or even community economic development is not an equation by which a certain amount of funding goes in and a certain amount of jobs come out. There are too many players with too many competing notions of community development to expect that a certain amount of funding will have a quantifiable effect on economic development.

Future programs need to be rethought at the federal level in a myriad of ways. Apart from tempering expectations and readjusting performance measurement standards, HUD must realize that after the initial planning stages, community input was limited. Furthermore, simply giving cities money and allowing city government to have near full control over spending ignores the preexisting political economy of these

cities. Many marginalized communities lack the social capital to organize to make sure their voice is heard. A tacit goal of the program was to move away from the top-down dichotomy that defined the *War on Poverty* or *Model Cities* programs. In reality the federal government changed the scale of operations, allowing cities to plan about how to spend money, but it did not change this dichotomy. A new program should include an intermediary level organization that moves between the federal government and the local zone office. The local office does an incredible amount of work with very little manpower - conducting audits, writing reports, processing RFPs, etc. The intermediary office should look to build community partnerships and to act as a facilitator between the different players of city politics. Furthermore, this intermediary organization could also focus on counseling small businesses and providing entrepreneurial support services that the EZ Office had neither the time nor the capacity to direct.

The success of the Minneapolis Empowerment Zone program in relation to other cities is a result of many factors. First, there was a planning framework as to how money would be allocated and major projects have been relatively successful. However, there are other reasons for the effectiveness of the program. Minneapolis has a long history of community involvement and neighborhood level participation. This high level of neighborhood social capital, even in marginalized neighborhoods, means that there is a group of community-based organizations that had the capacity to apply for funds, to receive funds and to impact community development and neighborhood change. Clearly, not every funding recipient accomplished this but there were many that did. The level of community involvement is very high in Minneapolis. The fact that opposition to the EZ Office was particularly vocal lends support to this notion. Cities need to have preexisting community capacity for place-based programs to act as true change-agents. This is obviously easier said than done, but it would serve federal policy-makers to identify

areas with preexisting community capacity before unleashing funds that can be overwhelmingly co-opted by the *rentier* class.

A main shortcoming of the EZ Program is that economic opportunities for EZ residents did not change dramatically. Low and middle-income jobs left the area at a rapid rate during the four-year study period. More and more, workers are leaving the city to work in suburbs. Any new policy should be directed towards creating job opportunities within the city so that marginalized populations with low access to transportation can benefit from the programs. Apart from creating job opportunities, a new program must provide for better job-force development. Without an effective job-force development component, place-based policies can fall into the trap of merely attracting more qualified in-migrants.

A future program must realistically assess the current cycle of urban decay and concentrated poverty in the United States. Marginalized neighborhoods are suffering the most deleterious effects of the subprime mortgage crisis including declining homeownership; increased residential turnover; inability to support local businesses; and an increase in vacant households. A future program must be positioned to directly remedy these traits of neighborhood decline. Focusing on strengthening the housing market and the residential stability of a neighborhood is easier said than done, but a new project must consider the devastation that the foreclosure crisis has caused. While a broad nod was given to improving the housing outcomes of Zone residents, developing strategies to counter widespread housing decline must be central in a future urban investment program. In that same breath, collaborating with lending institutions at the program level (and not just at the local level) might make the program more effective.

Another recommendation would be to refine to the focus of the program, both in project goals and in the actual size of the Empowerment Zone. The Minneapolis EZ covered a massive amount of space for the amount of funding that it received. Maria

Conley, current Minneapolis EZ director, acknowledged the difficulties in running a program that was intended to impact such a large geographic area (Conley interview notes, 12/15/2008). Perhaps changing the project to focus on “anchor” street development would be a more effective way to spend resources. In fact, it was almost as if the Minneapolis EZ program tacitly applied this concept, as it focused on solidifying the West Broadway, Lake and Franklin corridors. Community capacity draws on the importance of development nodes and public space, and commercial corridor streets served just that purpose. In terms of refining the project mission, former director Kim Havey commented on the importance of creating tangible improvements through place-based economic programs:

“Place-based economic policies face an uphill battle, especially because they locate in neighborhoods that are disinvested. If people wanted to invest in an area at a market rate, the need for a place-based economic policy would not exist. But these are areas that have not seen long-term investment, the market has shifted away from these neighborhoods so in that case yes, I think place based economic policies can do some good...in retrospect, I think focusing on economic stabilization programs that support the existing businesses and jobs in the neighborhood; that attracts some outside business investment; and that improves the existing business and employment districts (façade and infrastructure improvements) are the most effective components of a place based economic stimulus program.” (Havey interview notes, 3/18/09)

A final policy recommendation is that more money needs to be invested for marginalized neighborhoods to reach a true tipping point. The \$28 million dollars that went into the community and into demonstration projects have certainly had some positive impacts on the neighborhood, no matter how hard it is to quantify these impacts. But to expect that \$28 million dollars can serve to ameliorate poverty or improve the outcomes of EZ residents is foolish. To reach a positive tipping point, neighborhoods need greater monetary access just as much as they need more social capital development.

Chapter VII. Conclusion

Speaking in absolutes when describing the success or failure of the Minneapolis Empowerment Zone Program is impossible. There were tangible outcomes that came out of the program's establishment. The Midtown Exchange would not exist in present form if not for the funding leverage that the EZ program created and the same goes for the creation of Heritage Park. In terms of engaging community involvement, the EZ program had less discernable effects. While many community-based organizations were bolstered by EZ funding, for the most part these organizations were already entrenched in the community and had the capacity to effectively manage the funding. The goal of bringing new community-based organizations to fruition and stimulating small business entrepreneurship was harder to realize. That is not to say that no in-roads were made in this venture, but success was much less pronounced. Again, the programmatic design of the Empowerment Zone program at the federal level is partially responsible for the failure of the EZ to further engender community participation. At the same time, the program should be lauded for effectively getting funding into the hands of the community ventures that did have the capacity to manage the paperwork that accompanies federal funding.

There are many future extensions of this project. Time constraints and data constraints certainly limited the goals and outcomes of this project. It is important to incorporate the perspectives of more community players to gain the most comprehensive assessment of the program. Further contact with recipient organizations, non-recipient community organizations and local in-zone businesses would have created a more robust perspective. A survey process would be an ideal way to reach this objective. The use of socio-economic data would also enhance a report on the effectiveness of the Empowerment Zone.

The findings of this report show a mixed picture on the efficacy of place-based programs. Finding the optimal policy mix between place-based and people-based initiatives is a difficult task. However, the fact remains that there are areas of concentrated poverty in the United States. While the Empowerment Zone represented a major shift in U.S. urban policy, it was not particularly effective in creating extensive neighborhood change. This however, does not mean that the urban funding programs should be abandoned; programs must build off of the findings of EZ assessments to construct a more effective strategy for economic and social capital development. In many respects the needs of marginal communities are even more pronounced in light of the current economic downturn. The problems of concentrated poverty that the EZ was intended to fight still exist. A new federal initiative must first consider the missed opportunities of the EZ program before creating a new place-based community improvement program.

Appendix 1. Shift-Share Result Tables

Table 1.	City of Minneapolis			Empowerment Zone		
	2002	2006	% change	2002	2006	% change
Agriculture, Forestry, Fishing and Hunting	123	157	27.6423	11	22	100.0000
Mining	14	13	-7.1429	1	1	0.0000
Utilities	571	476	-16.6375	52	33	-36.5385
Construction	4,934	4,174	-15.4033	375	429	14.4000
Manufacturing	14,168	13,450	-5.0678	1,626	1,518	-6.6421
Wholesale Trade	7,851	8,274	5.3878	732	810	10.6557
Retail	15,138	15,993	5.6480	1,523	1,860	22.1274
Transportation and Warehousing	5,264	4,961	-5.7561	553	597	7.9566
Information	6,606	4,772	-27.7626	533	419	-21.3884
Finance and Insurance	11,409	12,185	6.8016	849	1,134	33.5689
Real Estate	3,370	3,452	2.4332	344	371	7.8488
Professional, Scientific, Technical	12,746	13,750	7.8770	900	1,256	39.5556
Management of Companies and Enterprises	6,272	7,556	20.4719	567	758	33.6861
Administrative and Support and Waste Management	10,986	11,019	0.3004	1,933	1,528	-20.9519
Education Services	16,564	16,822	1.5576	1,189	1,440	21.1102
Health Care and Social Assistance	21,794	22,171	1.7298	2,593	2,726	5.1292
Arts, Entertainment, and Recreation	2,878	2,515	-12.6129	298	261	-12.4161
Accommodation and Food Services	13,139	13,896	5.7615	1,685	1,814	7.6558
Other Services	6,372	6,364	-0.1255	734	701	-4.4959
Public Administration	6,288	4,492	-28.5623	478	373	-21.9665
Total	166,487	166,492	0.0030	16,976	18,051	6.3325

Table 2.	Mix Effect	Local Growth	Cumulative Job Effect
Agriculture, Forestry, Fishing and Hunting:	3	8	11
Mining	0	0	0
Utilities	-9	-10	-19
Construction	-58	112	54
Manufacturing	-82	-26	-108
Wholesale Trade	39	39	78
Retail	86	251	337
Transportation and Warehousing	-32	76	44
Information	-148	34	-114
Finance and Insurance	58	227	285
Real Estate	8	19	27
Professional, Scientific, Technical	71	285	356
Management of Companies and Enterprises	116	75	191
Administrative and Support and Waste Management	6	-411	-405
Education Services	18	232	251
Health Care and Social Assistance	45	88	133
Arts, Entertainment, and Recreation	-38	1	-37
Accommodation and Food Services	97	32	129
Other Services	-1	-32	-33
Public Administration	-137	32	-105
Total	44	1,031	1,075

Table 3.	City of Minneapolis			Empowerment Zone		
Earnings Level	2002	2006	% change	2002	2006	% change
Earnings Low	51,108	35,901	-29.7546%	6,359	4,949	-22.17%
Earnings Middle	98,383	65,797	-33.1216%	9,254	8,254	-10.81%
Earnings High	16,996	64,794	281.2309%	1,363	4,848	255.69%
Total	166,487	166,492	0.0030%	16,976	18,051	6.33%

Table 4.	Mix Effect	Local Growth	Cumulative Job Effect
Earnings Low	-1,892	482	-1,410
Earnings Middle	-3,065	2,065	-1,000
Earnings High	3,833	-348	3,485
total	-1,125	2,199	1,074

Table 5.	City of Minneapolis			Empowerment Zone		
Industry Type	2002	2006	% change	2002	2006	% change
Agriculture, Forestry, Fishing and Hunting	63	90	42.86%	0	1	Cannot Compute*
Mining	0	13	Cannot Compute*	0	1	Cannot Compute*
Utilities	3,061	2,649	-13.46%	85	50	-41.18%
Construction	6,781	5,287	-22.03%	1,652	1,411	-14.59%
Manufacturing	16,696	15,015	-10.07%	4,227	3,928	-7.07%
Wholesale Trade	11,853	11,871	0.15%	3,104	3,119	0.48%
Retail	17,873	12,731	-28.77%	5,230	2,572	-50.82%
Transportation and Warehousing	5,958	4,461	-25.13%	1,693	1,482	-12.46%
Information	11,893	9,473	-20.35%	1,027	1,137	10.71%
Finance and Insurance	27,711	23,511	-15.16%	244	486	99.18%
Real Estate	6,019	5,896	-2.04%	612	632	3.27%
Professional, Scientific, Technical	29,102	30,772	5.74%	2,061	2,085	1.16%
Management of Companies and Enterprises	12,879	16,628	29.11%	789	172	-78.20%
Administrative and Support and Waste Management	17,921	12,655	-29.38%	1,361	1,264	-7.13%
Education Services	29,523	29,160	-1.23%	1,370	1,670	21.90%
Health Care and Social Assistance	44,346	38,840	-12.42%	16,027	13,325	-16.86%
Arts, Entertainment, and Recreation	4,255	3,713	-12.74%	756	940	24.34%
Accommodation and Food Services	19,178	18,501	-3.53%	1,701	1,387	-18.46%
Other Services	12,916	10,358	-19.80%	2,815	1,729	-38.58%
Public Administration	12,468	6,352	-49.05%	501	411	-17.96%
Total	290,497	257,977	-11.19%	45,255	37,802	-16.47%

Table 6.	Mix Effect	Local Growth	Cumulative Job Effect
Agriculture, Forestry, Fishing and Hunting	0	0	0
Mining	0	0	0
Utilities	-2	-24	-25
Construction	-179	123	-56
Manufacturing	48	127	174
Wholesale Trade	352	10	362
Retail	-919	-1,153	-2,073
Transportation and Warehousing	-236	214	-21
Information	-94	319	225
Finance and Insurance	-10	279	269
Real Estate	56	33	89
Professional, Scientific, Technical	349	-94	255
Management of Companies and Enterprises	318	-847	-529
Administrative and Support and Waste Management	-248	303	55
Education Services	137	317	453
Health Care and Social Assistance	-196	-712	-908
Arts, Entertainment, and Recreation	-12	280	269
Accommodation and Food Services	130	-254	-124
Other Services	-242	-528	-771
Public Administration	-190	156	-34
Total	-937	-1,452	-2,389

Table 7.	City of Minneapolis			Empowerment Zone		
Earnings Level	2,002	2,006	% change	2002	2006	% change
Earnings Low	75,712	41,108	-45.70%	10,940	5,967	-45.46%
Earnings Middle	179,982	86,397	-52.00%	28,983	15,452	-46.69%
Earnings High	34,801	130,472	274.91%	5,332	16,383	207.26%
Total	290,495	257,977	-11.19%	45,255	37,802	-16.47%

Table 8.	Mix Effect	Local Growth	Cumulative Job Effect
Earnings Low	-3,775	27	-3,748
Earnings Middle	-11,826	1,539	-10,287
Earnings High	15,255	-3,607	11,648
Total	-346	-2,041	-2,387

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Interview Notes

Maria Conley (personal communication, December 15, 2008)

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