



Department of City Development

Housing Authority  
Redevelopment Authority  
City Plan Commission  
Historic Preservation Commission

**Julie A. Penman**  
Commissioner

**Michal A. Dawson**  
Deputy Commissioner

**MEMO**

Date: September 24, 2001

To: Members of the Common Council

From: Julie A. Penman, Commissioner

Re: Milwaukee Renewal Communities application

I have attached additional materials for your review pertaining to the Renewal Communities (RC) item on tomorrow's Common Council meeting agenda.

As you may recall from my previous letter, RC is a new program through the Department of Housing and Urban Development (HUD), where designated, distressed areas receive a package of tax incentives aimed to spur economic growth.

HUD set forth minimum criteria for proposed RC areas. They will take all submitted applications and will designate the most distressed communities as RCs (see attached "Selection Process.") We have delineated an area that we believe will be competitive when compared with other RC applicants. The demographic profile of the area shown in the attached "Area Proposed for Milwaukee's Renewal Communities" is as follows:

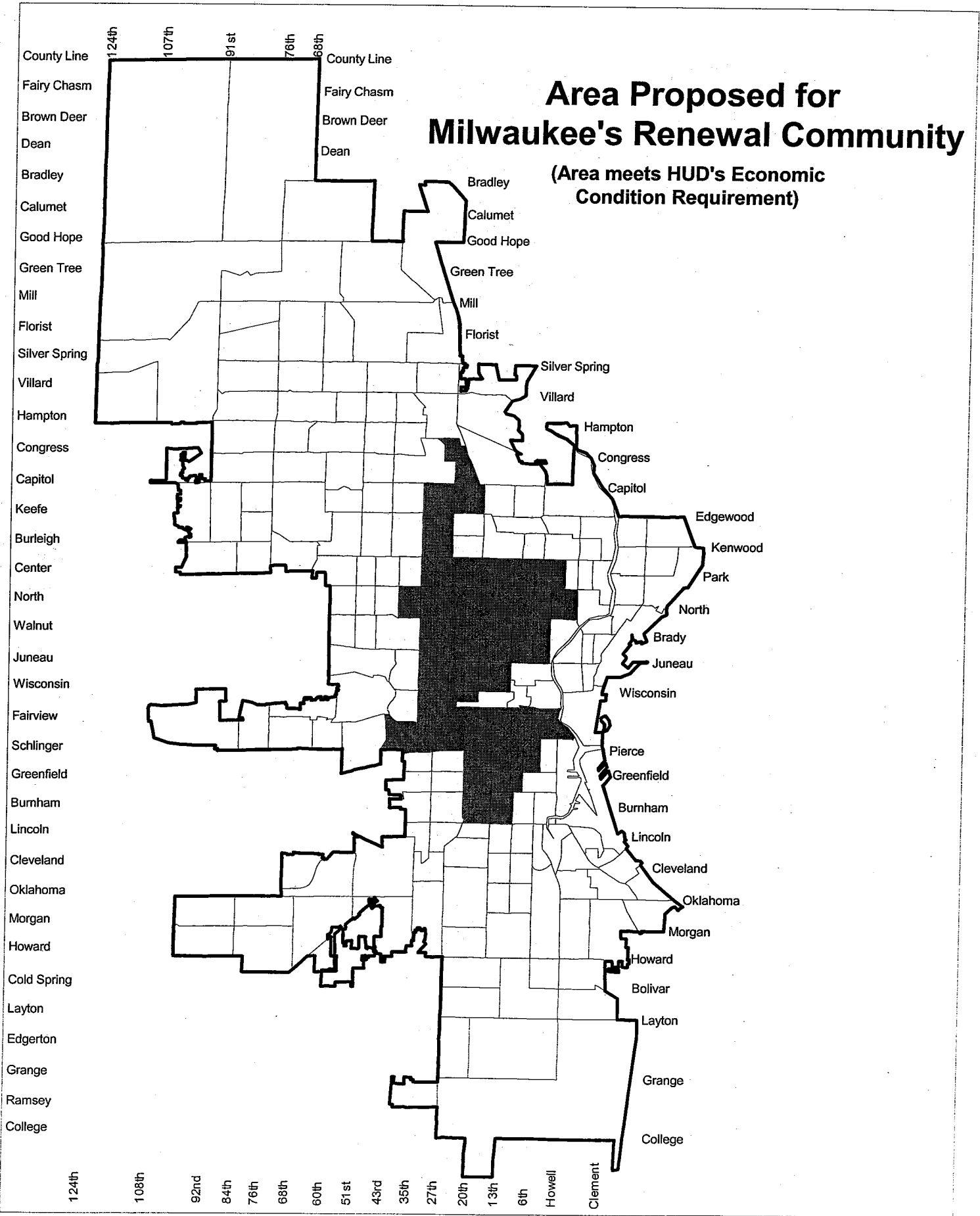
	HUD's minimum	Milwaukee's proposed area
Total area population	50,000	117,846
Percentage of people with moderate incomes	70%	84.8%
Unemployment rate	9.4%	17.4%
Percentage of people below the poverty line	20%	49.6%

The Council's support is an important component to this application and we thank you for your consideration of this resolution.

Enclosures

# Area Proposed for Milwaukee's Renewal Community

(Area meets HUD's Economic Condition Requirement)



## SECTION 6

# Selection Process

## Summary of the Process

### *Meeting Eligibility Requirements*

Before rating and ranking an application, the U.S. Department of Housing and Urban Development (HUD) will review it to determine whether it meets the thresholds of eligibility and adequacy of State and local commitments. These eligibility requirements are explained in detail in section 3.

HUD will notify an applicant of any threshold deficiencies in its application. The applicant may submit additional information or take other action to correct the deficiency until the application due date. Applications that do not meet all of the threshold requirements by the application due date will be neither rated nor ranked.

## Ranking Eligible Applications

### *Preliminary Ranking Score*

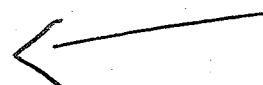
After nominated areas meet eligibility requirements and show adequate State and local commitments, their applications will be ranked. (Rural and urban areas will be ranked separately.) Rural nominated areas will be ranked based on <sup>1</sup>poverty and <sup>2</sup>unemployment rate. Urban nominated areas will be ranked according to the above two factors as well as <sup>3</sup>the percentage of families below 80 percent of the area median income. After the nominated areas are ranked, they also will be awarded preference points based on the incidence of crime in the area and whether area census tracts have been identified as distressed by the U.S. General Accounting Office (GAO). They will then receive a final ranking from highest to lowest.

Nominated areas that include one or more census tracts from areas that are Empowerment Zones (EZs) or Enterprise Communities (ECs) will receive selection preference. After the initial ranking, both urban and rural applications will be separated into two categories. Category 1 will consist of applications from EZs and ECs, which will then be placed in rank order. Category 2 will consist of all other nominated areas. Up to 20 nominated areas from Category 1 will be designated as Renewal Communities (RCs). Although this depends on the number of rural and urban applications received in Category 1, HUD plans to select the 12 highest-ranked rural areas and the 8 highest-ranked urban areas as RCs. After the Category 1 nominated areas are selected, the applications in Category 2 will be ranked and selected until 40 RCs are designated.

Each nominated area meeting the minimum thresholds will be ranked from highest to lowest according to:

- 1 ■ Area poverty rate.
- 2 ■ Area unemployment rate.

RANK THREE FACTORS



- Percentage of families below 80 percent of area median income (for urban areas only).

### How Rankings Are Calculated

The percentile rank will be determined by dividing rankings for each category (poverty and unemployment rates and, if applicable, percentage below 80 percent of median income) by the total number of nominated areas ranked and multiplying the result by 100.

The average ranking will be determined by computing the simple average of the percentile ranks for each nominated area. To create a 100-point scale, the average rankings will be subtracted from 100.

Exhibit 1 illustrates this process for urban nominated areas, assuming 150 nominated areas being ranked.

Exhibit 1. Illustrative Example: Preliminary Ranking Process for Poverty and Unemployment

Applicator Number	Absolute Rankings			Percentile Rankings (100 x Absolute Rank) (Number of Areas)				Score (Average Rank-100)
	Poverty Rate	Unemployment Rate	Low Mod Rate	Poverty Rate	Unemployment Rate	Low Mod Rate	Average Rank	
1	8	3	1	40	20	67	22	97.6
2	12	8	3	67	53	20	27	97.3
3	2	6	6	13	40	40	31	96.9
4	3	5	7	20	33	47	33	96.7
5	4	12	5	27	60	33	47	96.5
6	9	11	14	60	67	93	53	94.7
150	140	150	145	93.3	100	96.7	96.7	3.3

Low Mod Rate is the percentage of families below 80 percent of area median income.

### Bonus Points

Once a nominated area receives a preliminary ranking score, it may be awarded bonus points based on the following factors:

- One, two, or four points for smaller than average incidence of crime in the area (based on 1999 statistics).
- One point, if any census tracts in the area have been identified as distressed by GAO.

Mary Stott

### ***Incidence of Crime***

A nominated area will receive one additional point if its 1999 Local Crime Index (LCI) rate per 100,000 inhabitants does not exceed the 1999 Crime Index (CI) rate per 100,000 inhabitants by more than 25 percent.

A nominated area with an LCI that does not exceed the CI by more than 10 percent will receive two bonus points. A nominated area with an LCI that is less than the CI will receive four bonus points. To qualify for bonus points based on the incidence of crime, all of the nominating governments must certify the accuracy of the LCI reported for the nominated area.

LCI is determined based on data from each State and local law enforcement authority with jurisdiction in the nominated area. CI is a set of national statistics prepared as part of the FBI's Uniform Crime Reporting Program. It is derived from the incidence of selected offenses used to gauge fluctuations in the overall volume and rate of crime reported to law enforcement. The offenses include murder, nonnegligent manslaughter, forcible rape, robbery, aggravated assault, burglary, larceny-theft, motor vehicle theft, and arson.

#### ***Importance of Incidence of Crime***

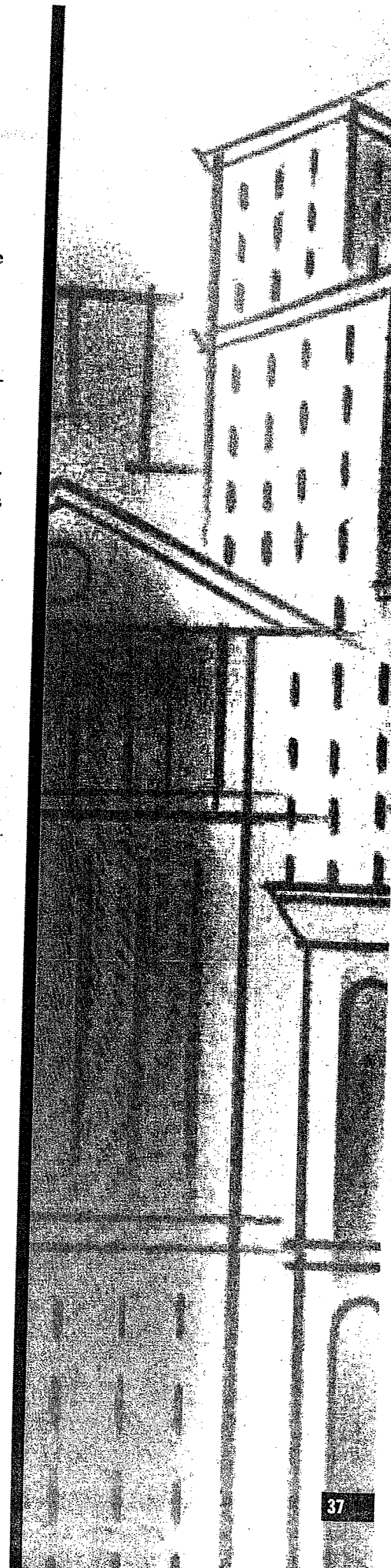
HUD takes incidence of crime into account because it can affect business development in an area. This preference rewards jurisdictions that have managed to control crime levels. An RC located in an area that has already begun to successfully address a high incidence of crime starts out with a more inviting business environment and is better poised to achieve success. Business owners will be less concerned about the safety of their employees, their facilities, and property. Insurance rates for businesses in areas with lower incidences of crime are likely to be lower and thus make the area more attractive for investment and development.

### ***Distressed Census Tracts***

A nominated area will receive one bonus point if any of its census tracts are identified as distressed areas in GAO Report RCED-98-158R, dated May 12, 1998. The report, titled *Community Development: Identification of Economically Distressed Areas*, is available from GAO at [www.gao.gov](http://www.gao.gov) or from GAO's Document Distribution Center at (202) 512-6000.

### ***Selection Preference: EZs/ECs***

The first 20 RC designations will be given to nominated areas that include one or more census tracts from areas that are already designated as EZs or ECs, if they meet the threshold requirements of eligibility and adequacy of local commitments.



## Renewal Community Tax Incentives

Substantial tax incentives will be available to businesses in Renewal Communities (RCs) during the period January 1, 2002, through December 31, 2009. These tax incentives are generally designed to encourage businesses to locate or expand operations in an RC and to hire RC residents. The incentives include:

### Renewal Community Tax Incentives for Businesses

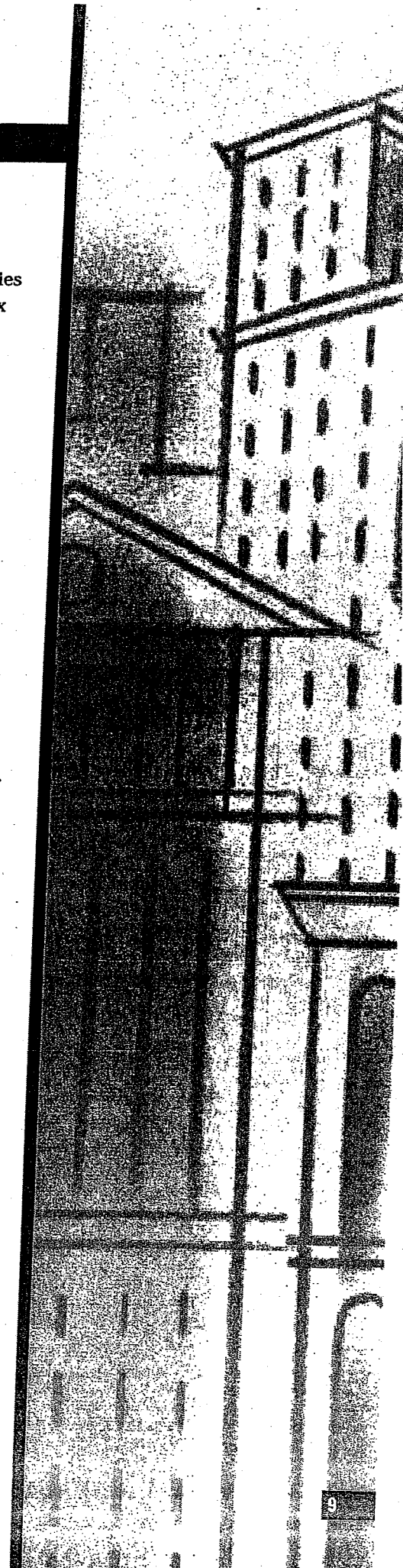
- Wage Credits.
- Deductions.
- Bond Financing.
- Capital Gains.
- Other Incentives.

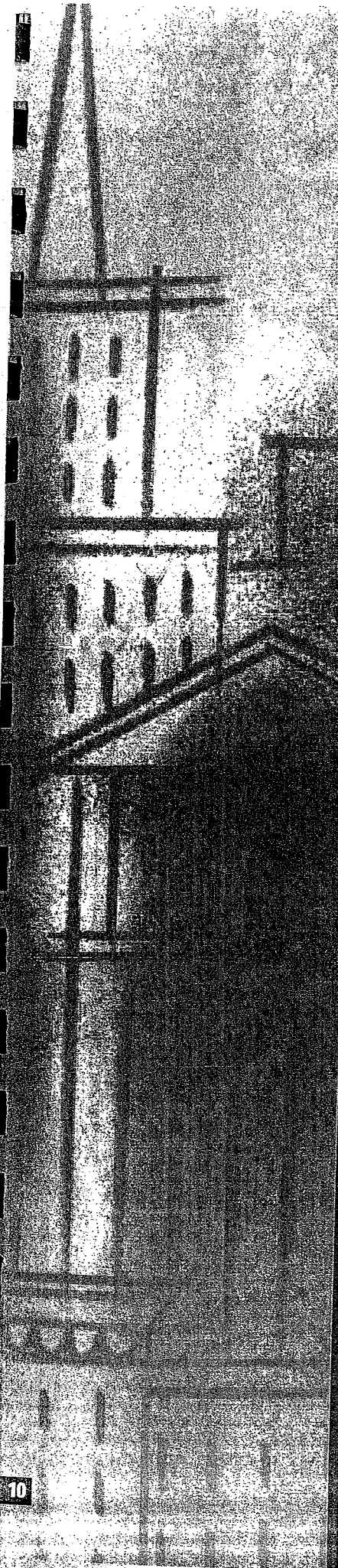
### Wage Credits

- **Renewal Community Employment Credit (RC Wage Credit).** Credit against Federal taxes of up to \$1,500 during each year of RC designation for all existing employees and every new hire living in the RC.
- **Work Opportunity Tax Credit (WOTC).** Credit of up to \$2,400 against Federal taxes for businesses for each new hire from groups that have high unemployment rates or other special employment needs, including youth ages 18 to 24 and summer hires ages 16 to 17 who live in an RC.
- **Welfare to Work (WtW) Credit.** Two-year credit against Federal taxes for businesses that hire long-term family assistance recipients. Credits of up to \$3,500 in the first year and \$5,000 in the second year for each new hire.
- **Indian Employment Credit.** Credit against Federal taxes calculated on wages of up to \$20,000 for each qualified employee who is an enrolled member of an Indian tribe (or spouse of an enrolled member) who lives on or near an Indian reservation. Available for existing employees and new hires.

### Deductions

- **Increased Section 179 Deduction.** Allows a business to claim an increased Section 179 deduction (up to \$35,000) if it qualifies as a Renewal Community Business. Can be claimed on certain depreciable property such as equipment and machinery.
- **Commercial Revitalization Deduction.** Deduction of either one-half of qualified revitalization expenditures (QREs) in the first year a building is placed in service or all QREs on a prorated basis over 10 years if QREs have been allocated to revitalization of a commercial building located in an RC.





■ **Environmental Cleanup Cost Deduction (Brownfields).** Businesses can elect to deduct qualified cleanup costs of hazardous substances in certain areas (brownfields) in the tax year the business pays or incurs the costs.

■ **Depreciation of Property Used on Indian Reservations.** Special accelerated depreciation rules apply to qualified property placed in service on an Indian reservation after 1993 and before 2004. Certain public infrastructure used or located off the Indian reservation also qualifies.

## Bond Financing

■ **Qualified Zone Academy Bonds (QZABs).** State or local governments can issue bonds at 0-percent interest cost to them to finance public school programs with private business partnerships. Private businesses must contribute money, equipment, or services equal to 10 percent of bond proceeds (which may qualify as a charitable contribution). The Federal Government pays interest in the form of tax credit to banks, insurance companies, and certain lending corporations that hold QZABs.

## Capital Gains

■ **Zero Percent Capital Gains Rate for RC Assets.** The holder, for a minimum of 5 years, of an RC asset acquired between January 1, 2002, and December 31, 2009, will not have to include in its gross income any qualified capital gain from the sale or exchange of the asset.

## Other Incentives

■ **New Markets Tax Credit.** Equity investors in qualified Community Development Entities (CDEs) can obtain a tax credit against Federal taxes of 5 to 6 percent of the amount invested for each of the years the investment is held, for up to 7 years of the credit period.

■ **Low-Income Housing Tax Credit (LIHTC).** Ten-year credit against Federal taxes for owners of newly constructed or renovated rental housing that set aside a specified percentage of units for low-income persons for a minimum of 15 years. The credit varies for new construction and renovation.

For more information on tax incentives available in RCs, please see *Tax Incentive Guide for Businesses in the Renewal Communities, Empowerment Zones, and Enterprise Communities*. See section 12 for instructions on how to obtain the guide. Also, designated communities will need to prepare a tax incentive utilization plan (TIUP) outlining a strategy for promoting the use of these tax incentives. See section 8 for details on the TIUP.