REVIEW OF THE CURRENT STATUS OF EMPOWERMENT ZONES AND RENEWAL COMMUNITIES

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

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U.S. HOUSE OF REPRESENTATIVES

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REVIEW OF THE CURRENT STATUS OF EMPOWERMENT ZONES AND RENEWAL COMMUNITIES

WEDNESDAY, APRIL 10, 2002

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 2:10 p.m. in room 2128, Rayburn House Office Building, Hon. Gary G. Miller, of the subcommittee, presiding.

Present: Acting Chairman Miller; Representatives Kelly, Capito, Grucci, Tiberi, Jones, Capuano, Clay, and Israel.

Mr. MILLER. Without objection, we'll go ahead and start the hearing today. Today the Subcommittee on Housing and Community Opportunity meets to review the Empowerment Zone/Enterprise Community program.

In 1993, the 103rd Congress set in motion a major economic development initiative designed to revitalize deteriorating urban and rural communities by enacting the Omnibus Budget Reconciliation Act of 1993, OBRA 1993, which established the Empowerment Zone/Enterprise Communities (EZ/EC) program. The EZ/EC program targets Federal grants for social services and community redevelopment and provides tax and regulatory relief intended to attract and retain businesses in designated areas.

Federal funding for EZs and ECs is made available through the Title XX Social Service Block Grant (SSBG) program. As with other SSBG funds, those allotted for the EZ/EC program are granted by the Department of Health and Human Services (HHS) to the States that are fiscally responsible for these funds. The authorizing legislation provides for a one-time appropriation of $1 billion for HHS to be made available to SSBG funds over a 10-year life of the program, thus ensuring the Round I designated areas would not be dependent on annual appropriations, as is typically the case.

The program originally consisted of six urban and three rural areas designated as empowerment zones (EZs). An additional 60 urban and 30 rural areas were designated Enterprise Communities (ECs) which receive a smaller package of Federal incentives.

Each urban EZ was allocated $100 million and each rural EZ was allocated $40 million in SSBG funds over use for a 10-year period. All of the urban and rural ECs were allocated just under $3 million in SSBG funds. In 1997, Congress added Cleveland and Los

Angeles as empowerment zones and designated them for purposes of funding as part of the Round I EZ.

In 1997, Congress created Round II of the EZ/EC program authorizing the designation of 20 additional EZs, 15 urban and 5 rural. Round II EZs were given a different mix of tax incentives, and unlike the Round I EZs, the enabling legislation for Round II zones did not include SSBG funding. Businesses in the Round II EZs are eligible for more generous tax-exempt financing benefits than those in Round I EZs. Round II EZs are also eligible to designate up to 2,000 acres of underutilized developable property outside the normal zone area which it can receive zone benefits and can be used for job creation for zone residents. For example, Indian tribes with poverty areas also qualify to apply for and receive designation.

The TRA of 1997 did not appropriate SSBG funds as had been available in Round I EZs and ECs. For fiscal year 1999 through fiscal year 2002, Congress approved a total of $22 million in funding for each of these zones. The HUD VA appropriation bill for fiscal year 2001 provided each zone EZ with $5 million in SSBG funding. It also provided a total of $15 million SSBG funding for Round II, rural EZs and ECs. A total of $10 million was for the five rural EZs, $2 million for each, and $5 million for the rural Enterprise Zones, $250,000 each. The 15 urban Round II EZs received a total of 330 over 10 years.

The 106th Congress passed the Community Renewal Tax Relief Act of 2000 as part of the Consolidated Appropriation Act of 2001 which authorizes the Secretary of HUD and Agriculture to designate nine additional Empowerment Zones, 7 urban and 2 rural. And also included provisions that impacted Round I and II EZs. For example, the designation of EZ status for Round I and II zones, other than the District of Columbia, was extended through December 31, 2009, and the 20 percent wage credit was made available in all Round I and II zones for qualifying wages paid or incurred after December 31, 2001.

Further, $35,000 rather than $20,000 of additional Section 179 expensing was available for qualified zone properties placed in service after December 31, 2001.

This hearing will examine the EZ/EC program generally and then focus on the discrepancies in funding between the Round I, II and III zones. Witnesses have been asked to comment on the process of EZs in their respective States. In addition, witness have also been asked to comment on H.R. 2637, the Round II EZ/EC Flexibility Act of 2001, which authorizes specific urban and rural Empowerment Zones and permits the use of these funds for zone or community strategic plan implementation.

The legislation would also provide for the use of Federal funds to pay matching fund requirements to prevent the Empowerment Zone or Enterprise Communities from losing Federal funding because of reclassification as a renewal community.

We look forward to hearing from each of our witnesses this morning. I will now turn the mike over to Mr. Frank if he was here, but I see that Mr. Frank is not here at this point in time, so I will reserve time for him later at this point.

Also, because Ms. Capito is a Member of this subcommittee, we're going to recognize her first at this time. Ms. Capito.

Ms. CAPITO. Thank you very much, Mr. Miller, Mr. Chair. At this time I would like to begin by thanking you and the Chairwoman for holding this all important hearing on the current issues of Empowerment Zone and Enterprise Community program.

I would also like to take this opportunity to acknowledge the support and thank my colleague, Mr. Rahall, also from West Virginia, and his staff for their efforts on behalf of the EZ/EC program in our home State of West Virginia.

In 1997 while serving as a State delegate in the West Virginia Legislature, a portion of my district known as the Upper Kanawha Valley in Kanawha County, along with portions of Fayette County in Mr. Rahall's Congressional District, competed with numerous other community development groups from around the country for selection to receive Federal grant funding as a designated Round II Enterprise Community.

My fellow Members, it gives me great pleasure to sit here before you today—some 5 years later—to give you evidence and report on the remarkable progress and achievements that have been realized by that same determined and highly successful economic development group now known as the Upper Kanawha Valley Enterprise Community. Coincidentally, I think it's important to note that the Upper Kanawha Valley in West Virginia has some of the highest poverty and highest unemployment rates in our State.

It is worth noting that in the last 4 years alone, the Upper Kanawha Valley Enterprise Community has been recognized as a top five Enterprise Community nationally, and they have skillfully—and I emphasize skillfully—leveraged an astounding $84 million in private sector investment and State and local matching funds for the $1 million in Federal grant funding that the Upper Kanawha Valley Enterprise Community has received over the past 4 years.

As you will soon hear today, the hard work carried by those associated with the Upper Kanawha Valley Enterprise Community has been demonstrated in countless acts of volunteerism and community development. From a new small business incubator to health clinics and community centers, the local residents, business owners, elected officials and UKVEC staff have all truly made the Upper Kanawha Valley Enterprise Community an indispensable tool for economic development as one of the Nation's more successful ECs.

In closing, I would like to state for the record my sincere appreciation and full support for Representative LoBiondo's hard work and dedication in introducing H.R. 2637, the Round II EZ/EC Flexibility Act of 2001. If we truly value all the progress and economic development resulting from the EZ/EC program, then we must enact a measure that both secures continued funding and maintains flexibility. H.R. 2637 would restore and safeguard adequate funding levels while allowing each individual EZ/EC to continue implementing their own economic development plans within a framework that works best for that particular region and the character of that region.

I know just how successful these programs have been, because I have seen their potential firsthand. And if we have to hold these funding deliberations again each year, next year and the next year, I will gladly come before this subcommittee to voice my full support for the Empowerment Zones and Enterprise Community program.

[The prepared statement of Hon. Shelley Moore Capito can be found on page xx in the appendix.]

Thank you, Mr. Chair.

Mr. MILLER. Thank you.

We have a vote on the floor right now. I think if we recess for a moment to do that, when you come back, Mr. LoBiondo, you'd have a better audience here probably. So we will recess for approximately 10 minutes.

[Recess.]

Mr. MILLER. We're going to reconvene the hearing. The first witness will be the Honorable Frank LoBiondo. You have 5 minutes, sir.

Mr. LOBIONDO. Thank you very much, Mr. Chairman. I would like to thank Chairwoman Roukema for helping to arrange this very important hearing, and I'm very pleased today that on panel three there will be included Jim Sauro, who is the Freeholder Director in my home county of Cumberland County, New Jersey, and Jerry Velazquez, the Executive Director of our Empowerment Zone.

Congressman Mike Capuano and I co-chair the Enterprise Communities Caucus. It's a bipartisan group of Members who have Round II Empowerment Zones and Enterprise Communities.

The EZ/EC initiative provides critical Federal support for the comprehensive revitalization of designated urban and rural communities across the country. It is a 10-year program that targets Federal grants to distressed urban and rural communities for social services and community redevelopment and provides tax and regulatory relief to attract and retain businesses. This Federal investment generates funding at the State and local level as well as significant investment from the private sector.

As you pointed out, Mr. Chairman, the original Empowerment Zones received full funding. They don't have to come back hat-in-hand every year. The Round IIs are not so fortunate. The benefits promised for the Round IIs as you identified is flexible funding grants of $100 million for each of the urban zones and $40 million for each rural zone, $3 million for each Enterprise Community.

Round II zone designations were required to prepare strategic plans for comprehensive revitalization based on the availability of $100 million in Federal grant funding over the 10-year period. That's how our Round IIs prepared to make application. Unlike the Round I, as I said, the Round IIs have only received a small fraction of the funding.

The zones lack the certain and predictable funding stream to implement their strategic plans and must seek an annual appropriation to secure the promised Federal grant award. This is causing a huge problem. The success of this plan is based on private sector involvement. The private sector is very nervous and shaky abut the Federal commitment being so swayed from one year to the next. It is difficult for us to continue to attract the private funding that's so necessary for this being a success.

Cumberland is the second fastest spending zone in the Nation, having committed 100 percent of the nearly $19 million that has been made available by HUD so far. Three hundred jobs have been created so far, and an additional 1,100 jobs will be created over the net 18 months if the Federal funding source continues.

Over 100 housing units have been renovated, rehabilitated and constructed or purchased in EZ neighborhoods, and a $4 million loan pool is available to be reinvested back into the targeted communities.

The Cumberland Count initiative has funded over 60 programs through the EZ, utilizing more than $11 million in funding. These projects are estimated to leverage a total of more than $123 million in private, public and tax exempt bond financing.

And to put it very plainly, Mr. Chairman, in just 2 short years, the Cumberland Empowerment Zone has leveraged nearly $10 in private investment for every $1 in public funding, a remarkable achievement that shows the success of the zone.

I don't know how many, if any, Federal programs can point to the fact that they are leveraging $10 for every dollar invested. I think this is what the program is supposed to be about—to give communities a helping hand and allow them the tools necessary to be able to move forward. We have been very successful in being able to do that with the private sector, not to utilize public dollars. But unless we can somehow generate a regular stream of dollars into these communities for these programs, we're going to have everything that will be in serious jeopardy.

The existing Round II Empowerment Zones must receive multiyear funding to continue the success and implement the zones' long-term strategy plan.

The EZ partners in the private sector will continue to be reluctant to commit their own resources without a demonstration of the Federal Government's commitment that EZ funding will be available to complete these projects.

Last year I introduced, along with Mr. Capuano and several other Members, H.R. 2637, which would authorize funding and correct certain inconsistencies with the Round II Empowerment Zone/Enterprise Community program. When the Round IIs were originally designated, we believed that they would be supported with mandatory funding from social service block grants. However, because of the constraints in these fundings, these zones have instead been funded through annual discretionary appropriations. My bill would address the issue by establishing a formal funding authorization for urban and rural Empowerment Zones and Enterprise Communities through the Financial Services and Agriculture Committees. H.R. 2637 also includes language to allow specific authorization for grants to be used as matching funds for other relevant Federal grant programs, all in an effort to offer the EZ/EC program maximum flexibility at the local level.

Mr. MILLER. Are you wrapping up at this point I hope?

Mr. LOBIONDO. I'm wrapping up. I just want to thank you once again for the opportunity and stress how critical it is to these communities that the Federal dollars that we've already put in will basically almost be wasted if we don't consider continuing in some way, shape or form.

[The prepared statement of Hon. Frank A. LoBiondo can be found on page xx in the appendix.]

Mr. MILLER. Thank you very much, Mr. LoBiondo.

The next witness will be the Honorable Ted Strickland. You have 5 minutes, sir.

Mr. STRICKLAND. Thank you, Mr. Chairman, and Members of the Subcommittee. Empowerment Zones across the Nation are similar in the positive economic impact they have on communities, but they differ greatly depending on whether they were designated in the first round or the second.

Empowerment Zones in both rounds received various tax incentives, but only Round I Empowerment Zones receive mandatory appropriations in the form of cash grants. On the other hand, the 20 Round II Empowerment Zones are forced to depend on the vagaries of annual discretionary appropriations for their funding.

The Round II Empowerment Zone in Ironton, Ohio, and Huntington, West Virginia, is one of only two EZs that straddle a State line, and I am pleased to voice my support for this critical economic development initiative. In addition, I am honored to welcome Cathy Burns, who is the Administrator of the Ironton/Huntington Empowerment Zone, who will testify before you later today.

As I'm sure Cathy Burns will tell you better than I can, tax incentives alone simply cannot get the job done. Although tax incentives are an important component of each Empowerment Zone's mission, the projects that many of these communities pursue would be impossible without the ability to offer cash grants. When the Round II communities applied for EZ status several years ago, their applications were judged on the strength of their economic impact over a 10-year period. The goals that they hoped to accomplish by 2009 are predicated on the delivery of the funding they were promised. For this reason, I find it troubling that the President in his budget for fiscal year 2003 has not provided any money for Round II Empowerment Zones. If our goal is to revitalize distressed communities, we must recognize that it cannot happen without an infusion of cold hard cash.

I recently received this letter from the Director of the Office of Management and Budget, Mr. Mitch Daniels. In his letter, Mr. Daniels writes that, quote: "tax benefits are the driving force" behind the EZ program, and that most grant money for Round II EZs has not been spent. I have met with many leaders in the Huntington/Ironton area and I can say that tax benefits are not the driving force behind the initiative. The driving force is undeniably the cash grants. In the most technical sense, Mr. Daniels is correct in saying that all of the money has not been quote/unquote "spent". But it has been obligated, allocated, budgeted and otherwise committed to secure private investment in the community.

In fact, as Cathy Burns will tell you later, the Empowerment Zone in my district has taken the $18 million in Federal grants that it has received and it has used that to leverage more than $120 million in private funds. It would be hard if not impossible to find another Federal program whose return on investment is so great. If an Empowerment Zone can be so successful after just 3 years, imagine if it were allowed to develop unfettered for the full 10 years.

I'm pleased to say I'm not alone in this opinion. The conferees to the fiscal year 2002 VA/HUD Appropriations bill reported that they believe the EZ program, quote: "should be funded as a mandatory program." Similarly, the House Budget Committee in its report to the fiscal year 2003 Budget Resolution states that it, quote: "strongly supports the continued funding of Empowerment Zone . . . initiatives . . . at least at the level pledged by the Round II designation of 1999."

The Administration in its budget proposal for fiscal year 2002 recommended that $185 million be appropriated for EZs in the current fiscal year and foresaw a request of $150 million for fiscal year 2003. I was puzzled to read that the President had zeroed out the initiative in his request for fiscal year 2003. My strong hope is that we in Congress will push for mandatory funding for Round II Empowerment Zones but that we not settle for less than the continued funding of a commitment that we've made to these communities. Cutting short an initiative that's already seen so much success and whose potential is even greater would be a tragedy for the many communities that prosper under this program.

That's my statement, Mr. Chairman, and I thank you for this opportunity to share it with you and the subcommittee.

[The prepared statement of Hon. Ted Strickland can be found on page xx in the appendix.]

Mr. MILLER. Thank you very much. It can be very difficult trying to turn a community around and dealing with the issues they have to deal with. And I guess one question I have, do you think that tax incentives are a more effective tool than grants in revitalizing zones? Any one of you?

Mr. LOBIONDO. No, I don't think they're a more effective tool. I think that it's a combination of the two that provides the incentive for the private sector. We've, I think, clearly proven that both in Huntington and New Jersey, in West Virginia and New Jersey, that it's a combination of the two. And if you take away the grant part of this, you're going to absolutely scare away the private sector investment. The tax incentives alone won't do it. They're not big enough.

Mr. MILLER. And do you feel that Round II zones are making measurable, tangible progress in their revitalization efforts at this point?

Mr. LOBIONDO. I believe so. You heard Mr. Strickland's testimony, which is similar to New Jersey's experience with the private sector leverage that they had been able to accomplish. We have in the next little more than 12 months 1,200 jobs we'll be creating. That's a very successful program with tangible results that can be measured by any yardstick that anyone wants to use.

Mr. MILLER. Is there one tool that you'd consider to be most important for an economic developer that we could help them with in revitalizing these zones? Or have you pretty much covered that in your legislation?

Mr. LOBIONDO. I covered it in the legislation, but let me answer that for all of us.

Mr. MILLER. Why I'm saying that is because we talk about housing issues in many areas and too often in my opinion we just look at putting a band-aid over the problem and trying to deal outside of that to make things work rather than really addressing the real issue. And that's why I wonder if there's a tool that you think would be most important that we could provide.

Mr. LoBiondo. The tool is the combination of the grants and tax incentives put together that gives the private sector the incentive to keep jobs and create new jobs. There's not magic to it, but that's what does it.

Mr. Miller. Great.

Ms. Capito. I think if I could interject here at least in the Enterprise Community in Upper Kanawha Valley, which, I think, I mentioned has very high unemployment rates and a high level of poverty, the first dollars in are always the most difficult to jumpstart any kind of project.

Mr. Miller. Yes.

Ms. Capito. And, you know, the sense of desperation that some of these areas have because they can't go to a traditional banking route, they don't have the credit history or whatever to initiate these projects on their own, that's where, I think, the value of having something that has a multiplier effect as this one does and we've all demonstrated in our areas we've used very well. We actually have it in Montgomery, West Virginia are going to have a technology park. It's going to have as many as 300 jobs. And that's very significant.

Mr. Miller. Absolutely. Mr. Clay, I'm sorry.

Mr. Strickland. Could I just speak to your question?

Mr. Miller. Absolutely.

Mr. Strickland. I think it's a good question and it's a very fair question. And one of the things that I think is so unique about this approach is that it requires communities to take a comprehensive, integrated look and to pull together various aspects of the communities and to come up with long-term planning. And that may be as valuable as the tax incentives or even the cash grants, I think, in the long run.

But it's the combination of the integrated planning that looks forward and considers a community's overall needs and sets goals and then to provide the tax incentives and the cash grants. I think all those factors in combination really are necessary for these kinds of programs to be successful. But I think your question is on the mark, because we do need to, I think, understand why this particular program is valuable and has the success that we all believe it has.

Mr. Miller. Thank you. Mr. Clay, do you have any questions?

Mr. Clay. Thank you, Mr. Chairman.

Mr. Miller. Five minutes, sir.

Mr. Clay. Thank you for the opportunity to hear these witnesses. And let me ask the chief sponsor, Mr. LoBiondo. In February, Secretary Martinez in his statement before the Senate Banking Committee, stated that Round II Empowerment Zones do not need additional grant funds because we are more than halfway through the program and the currently appropriated dollars have not been utilized to the extent of 80 percent, and it's apparent you don't agree with that. Can I just hear how you feel about that?

Mr. LoBiondo. Well, I don't agree with that, because in many respects, these zones had a number of different funding opportunities. All the dollars from the Federal portion of this have basically been spoken for and obligated. In some cases, it's because of the Federal Government's foot-dragging on its own that these dollars were not able to be expended because they were not made available from HUD. And second, in the plan that we were all asked to develop, the dollars are all accounted for.

So, I think, with all due respect, I don't believe the Secretary fully understands the implications of his statement. And something else that's been missed, and Mr. Chairman, if I might, in response to Mr. Clay and also to your question, but of our zones in West Virginia and New Jersey have created revolving loan funds. This is maximizing even to a greater degree the ability to use Federal dollars, because these businesses must first qualify for the loan. So it's not a handout. It is not a band-aid approach. But once these businesses qualify for these loans, there are Federal dollars that are matched with private dollars to further expand the opportunity for the loan itself, and then these dollars come back into the fund and are used over and over and over again.

I mean, it's a marvelously ingenious way to use our Federal dollars that our funds have been able to maximize. But if in fact the Secretary continues to miss the point and we don't get the point on our end, then these dollars will just dry up.

Mr. CLAY. Thank you. Mr. Strickland, did you have something to add?

Mr. STRICKLAND. I would just add that, although, as I said in my testimony, these dollars may not have been technically spent, they are obligated. They're in the budget. They have been committed in a long-range manner. That's why it would be so devastating because these communities have developed the plans. They are following through with those plans, and although in a technical sense the funds may not have yet been spent, they have been obligated in a way that would be absolutely devastating if they were to not materialize.

Mr. CLAY. Thank you. Let me ask one part of the bill on page 3 in Section (d), can you give me an example of how the authority to use the funds to pay non-Federal share. Could I get an example for a layman of how that would work?

Mr. LOBIONDO. We'll try to get that for you here in a second. I don't have that memorized.

Mr. CLAY. OK.

Mr. LOBIONDO. In New Jersey there was a State program that would allow additional dollars to be put into Empowerment Zones, but because we couldn't match it, we were not able to take advantage of that funding.

Mr. CLAY. So this would allow the State of New Jersey to use some of that funding as the non-Federal match?

Mr. LOBIONDO. That's right.

Mr. CLAY. To leverage the other funding.

Mr. LOBIONDO. That's right.

Mr. CLAY. That sounds like a good idea. Thank you. Thanks, Mr. Chairman.

Mr. MILLER. Mr. Strickland, it sounds like you're saying that these are unspent dollars that are basically obligated in the long run and should communities be forced to spend those dollars each year, it could be a huge waste of funds at that time trying to find programs that aren't necessarily high priority or ready to spend those dollars just to utilize Federal funds so you get it the next year?

Mr. STRICKLAND. I think you're absolutely right, Mr. Chairman. For example, there's an industrial park under development in Ironton, Ohio. We have so much confidence in the ultimate benefit of the development of that park, but that's not something that you might be able to do in a concentrated period of time.

Mr. MILLER. I would hate to see you be forced to spend money to have it next year.

Mr. STRICKLAND. That's right.

Mr. MILLER. Mr. Capuano, do you have any questions, sir? The Member has 5 minutes.

Mr. CAPUANO. Thank you, Mr. Chair. Well, I just want to thank the panel for taking time to talk about an issue that's this important to all of us, and particularly Mr. LoBiondo. He has been one of the most aggressive pit bulls I have ever witnessed on this issue, and there is no one I would rather be on the same side as Mr. LoBiondo, and I want to congratulate him for that and thank him.

I guess the only thing I wanted to add—not add, just kind of a different twist to it—because it has bothered me from day one that people who allegedly understand the business mind don't understand that it's difficult to find businessmen on a regular basis to come into partnership when you can't guarantee the cashflow. Well, we're not sure the money's going to be here next year. We can't guarantee you it's going to be here 5 years from now, or 2 years from now or 10 years from now, but don't worry. Trust us.

Well, that's an almost impossible situation. The fact that we have been able to spend some of this money to me is actually the better story. It's also the more amazing thing, that you can get businessmen to come into partnership with a Government agency that can't guarantee anything. And particularly, the fact that we've been having this hearing is actually going to make it even more difficult to actually get the dollars that are currently pending out. Because no businessman in their right mind is going to get in bed with us. They're just not going to do it.

And, I think, it's a self-fulfilling prophecy. Because every time the Administration comes out, or this Congress comes out, and says we're not going to fund or we'll fight about it, and well, we'll fund it a few bucks, every time we do that we hurt the future of this program and we make it more difficult to put the next dollar out in the street and to make progress in all the communities across America. And I just wish at some point people would get it.

And the fact that the Round III Empowerment Zones are doing so well without direct benefit, for a very simple reason. In my experience, rule number one about businesspeople is you tell them what the rules are and how you play the game. If you don't change the rules, at least they can make a legitimate business decision as to whether they want to play or they don't want to play. And things work out well. It's when you change the rules that most businesspeople walk away, and I think wisely so. And we have changed the rules repeatedly in this particular game to the great detriment of communities across this country that we have given promises to. And again, I wanted to thank the panel for coming today and helping us out on this.

Mr. MILLER. Thank you.

Mrs. Jones, do you have any questions?

Mrs. JONES. Well, I come from the great city of Cleveland and we were an Empowerment Zone number one, and I just want to quickly just read two short paragraphs to talk about the greatness and the importance of Empowerment Zones and to go on record for my support of additional Empowerment Zones across this country.

This is a letter from former Mayor Michael R. White, who was the Mayor of the city of Cleveland when Empowerment Zones came into Cleveland. And it says: "Close your eyes. Dream a second and imagine the construction of a new $25 million nursing home in Huff." And Huff, as an editorial, was the location of the riots back in the 1960s in the City of Cleveland. "A brand new health museum in Fairfax. A $10 million new headquarters for vocational guidance services. The move from Chicago to Fairfax neighborhood by one of the world's leading biotech firms. The development of over 300 new homes around League Park, which was the original baseball stadium for the Cleveland Indians. The construction of 11,000 square foot office building in Glenville for a leading minority-owned construction company. The opening of a $16 million neighborhood services center, an eight-acre technology park in Midtown, and a dozen other high powered developments within a scant 18-month period.

"Imagine all this. Now open your eyes and realize that this picture is not a dream, but is one of the Nation's leading Empowerment Zones right here in the city of Cleveland."

Then just as an aside, the Cleveland Empowerment Zone is one of if not—and this is editorial—one of the most successful zones in the country. In addition to the $72 million invested through Empowerment Zone loans and grants, over $130 million of private funds have been invested in other community projects.

Our labor force program has taken strides by establishing free tuition and individual training accounts for zone residents. And we are proud of our one-stop career services center of Cleveland.

And these are just backgrounds of what can happen in communities with the addition of dollars for the Empowerment Zones. And I think it would be a travesty that we do not provide additional dollars for Empowerment Zones across the country. And I know what happens sometimes is a program gets started under one Administration under one party, and so the next time around will change the name and we won't do the same thing because we don't want that program to be successful.

But I think it would be terrible for us not to proceed with Empowerment Zones and to support the additional communities to have an opportunity to be supported like my own great city of Cleveland. And rather than ask questions, I just thought I'd editorialize and tell you how supportive I am of the work that you're all doing.

Mr. MILLER. Thank you, Mrs. Jones.

I'd like to thank the distinguished Members for their great presentation today. At this time we're going to be calling Panel number II, which would be the Honorable Roy Bernardi, Assistant Secretary for Community Planning and Development, Department of Housing and Urban Development. Mr. Bernardi, welcome. It's good to have you here today. At your leisure, you have 5 minutes, sir.

STATEMENT OF HON. ROY BERNARDI, ASSISTANT SECRETARY, OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. BERNARDI. Good afternoon. Thank you, Congressman and distinguished members of the panel. I'm Roy Bernardi, Assistant Secretary for Community Planning and Development at the Department of Housing and Urban Development, and I'm here on behalf of Secretary Martinez, and I want to extend our commitment, the Secretary's and mine, to work with you to improve the effectiveness of the Empowerment Zones.

Just very briefly, and I know you did this Congressman, I'll review the funding for Rounds I, II and III of the Empowerment Zones. The Omnibus Budget Reconciliation Act of 1993 authorized HUD to designate six urban EZs by December of 1994. And each EZ, as you mentioned, received $100 million in mandatory social services block grant funding.

The Taxpayer Relief Act of 1997 authorized HUD to designate 15 urban Round II EZs by January of 1999. Only tax benefits were authorized. However, the 1999 and 2000 budgets proposed 10 years of mandatory grants totaling $1.5 billion. Instead, Congress appropriated discretionary funding for Round II EZs from 1999 through 2002 for a total of $330 million or approximately $22 million for each zone.

Most recently, HUD designated eight Round III urban EZs, and 28 urban and 12 rural Renewal Communities on December 31st, 2001, and that was authorized by the Community Renewal Tax Relief Act of 2000. That Act provides a valuable array of tax incentives, which brings the total to more than $22 billion and applies to all EZs and RCs until December 31st, 2009.

The Administration did not request grants from the Round III Empowerment Zones, because we believe tax incentives are the driving force behind economic revitalization and job creation in Empowerment Zones. The Round III EZs and RC competition reflected this emphasis and generated, as you probably know, a great deal of enthusiasm. The Administration believes that economic revitalization can be better served by utilizing the $22 billion in tax incentives, or on the average, approximately $300 million per Empowerment Zone and Renewal Community.

To improve the effectiveness of Empowerment Zones, HUD plans to focus on two major areas. First, implementing an aggressive and comprehensive plan to market the existing tax incentives to businesses and individuals in the 30 zones and the 40 RCs. The perceived complexity of tax incentives creates numerous challenges for local governments, and I think we've heard that today.

Second, Secretary Martinez made it a priority to improve HUD's monitoring system to better track the performance and the financial compliance of the grantees. Special attention is being paid to obligations and the timely expenditure of funds. Collectively, Round II EZs have drawn $66 million as of April the 9th, 2002, or 23 percent. We know, as one of the Congressman indicated, that they have other obligations, and we will track committed funds as well, since they have not been tracked for the previous 9 years.

Still, with a total of $330 million awarded, it allows the communities to move forward with their plans with tax incentives and Federal competitive grants. There's also $100 million more in our Office of Economic Development and Rural Housing Offices for further competition.

The subcommittee has expressed a concern about the use of existing appropriations. Traditionally, HUD tracks progress toward milestones and outputs through an annual reporting process, and the Department shares the subcommittee's concern about performance. HUD's interim assessment of the Empowerment Zones and Enterprise Community program looks at a sample of Round I EZs to attempt to determine the impact of the program.

The research found a modest but significant impact in the economic well being of the Round I EZs, particularly as concerning unemployment. Because the impact is modest and there are competing inputs for the program, for example, strategic planning, grants, several tax incentives, there is no convincing evidence that the grant program in and of itself increases the program's effectiveness. The report concludes that businesses have insufficient knowledge of the tax incentives.

Our goal at HUD is for Empowerment Zones and Renewal Communities to make a dynamic shift to self-sufficiency and sustainable development. For example, rather than planning another custom made round for temporary grant programs, our most recently designated Round III Empowerment Zones brought over 100 commitment letters from the private sector, non-profits and other public entities. A great deal of interest by the business community.

The subcommittee asked HUD to explain the merits of tax incentives versus grants. The Round I EZs initiative was based on the approach that included both grants and tax incentives. The Department believes tax incentives should be at the center of its job creation efforts by helping small businesses grow, creating an entrepreneurial environment, and showing to large corporations that these economically challenged areas represent opportunities with great hope.

The variety of tax incentives such as the wage credits, the reduced capital gains——

Mr. MILLER. Are you summing up, sir?

Mr. BERNARDI. Yes I will. Another minute. The increased Section 179 deduction, zero percent capital gains, all of that will go an awful long way in making sure that the business community takes full advantage of the incentives that are being offered.

And we invited all of the EZs and the RCs to an implementation conference that we'll be holding here in Washington on May 20, 21st and 22nd. And our information indicates to us that this will be very well attended and we'll have the opportunity to showcase what this $22 billion in incentives can do for these communities. And after that conference we'll have regional conferences. We'll do updates, weekly faxes. We want to make sure, along with everyone else, members of the panel, that we use every possible advantage to utilize these tax incentives so that these zones can prosper.

Thank you.

[The prepared statement of Hon. Roy Bernardi can be found on page xx in the appendix.]

Mr. MILLER. Thank you very much. Just to kind of correct the record, there's been a few things said today. When Round I was initiated, they were given $1 billion in funding. Round II basically they said, well, we'll see what we can do.

Mr. BERNARDI. That's true.

Mr. MILLER. When Round III was started, they said you'll get tax incentives only.

Mr. BERNARDI. That's correct.

Mr. MILLER. That's just to correct the history. That's how it was processed, and now some believe that is not a reasonable approach, and that's why we're here discussing this bill.

The first question I have is, can you please explain whether HUD has evaluated the effectiveness of the EZ/EC programs? And if so, what have you learned?

Mr. BERNARDI. Well, the evaluation of it has not been everything that we wanted. The system that we have in place now, which is called the PERM system, performance management system, we've made some initiatives there as opposed to just looking at the drawing down of funds, we want to look at the funds that are obligated and at the same time be able to take a look at the financing in each individual project or program in all of the EZs.

That system is in place, and we should have some reports on that I believe in May of this year and we'll be able to indicate to all of the EZs by July with this new financial system that we're putting into place exactly where they all stand. So we're not really pleased with the inability to track the failures and successes of the EZ program.

Mr. MILLER. And are you familiar with the HUD-funded external evaluator, Apt Associates, who prepared the interim assessment on Round I zones, noting that limitations of tax incentives and value of grants that appears to be contradictory to HUD's assertions at this point?

Mr. BERNARDI. Well, they indicated that they were not utilized. The university I believe was also part of that study, that they were not utilized to the extent that they could be. You know, first and foremost, as a former mayor, and I look at economic development, your businessperson is always going to be looking for a grant.

However, if you look at the 15 Round II EZ zones and the people you had represented here today, Congressmen Strickland and LoBiondo, they talked about their areas, and those areas are working extremely well. But if the 15 EZs, five of them have not created a single job since the program took place in 1999. That's not being critical of them. There's been an awful lot of difficulty in implementing some of these programs.

The tax incentives gives the business community, the people that are out there, the opportunity—and no one knows better, Congressman Caputo, I believe he left, he talked about letting the rules be known what the game is going to be. Well, in the Empowerment Zones in Round III and in the RCs, when you talk about tax credits, that's something a businessperson can understand. Whether it's a wage credit, welfare-to-work credit, a work opportunity credit, and the amount of monies each year that they will be able to deduct those credits from their taxes by being able to establish a business in an area that really needs it.

As I looked around my city and I looked around other cities as I travel this country, and I see the Brownfield remediation that needs to take place, some of these are wastelands. They're fertile lands now because of these tax incentive programs. And we feel very strongly that utilization of these $22 billion in credits by not just the newly announced eight EZs and 40 RCs, but the remaining 30 EZs and the ECs will give tremendous value to all of the areas in this country to continue to improve. Has there been progress made by some of the EZs? Yes there has.

Mr. MILLER. Is it possible to capsulize the Administration's position on Round II and Round III zones then? What's their position to date on this?

Mr. BERNARDI. Well, the position is to utilize the tax credits that are available to the business community that's out there. We've had some people indicate to us, some of the EZs that we've just designated, that they're pleased to be able to deal with tax credits as opposed to grants. I think the statement was made, well, if the grants were there, people feel comfortable, the businesspeople feel comfortable that they'll always be there. But the tax credits give an opportunity to the community, to the businessperson to make a sound investment and realize what's going to happen on a year-to-year basis.

Mr. MILLER. Thank you very much.

Mrs. Kelly.

Mrs. KELLY. Thank you, Mr. Chairman.

Mr. Bernardi, can you tell us a little bit about the economic conditions of the Enterprise Zones before the Federal designations? Were there any in Syracuse?

Mr. BERNARDI. Well, Syracuse just received an Empowerment Zone designation in the latest round. Of course, with every urban area, there are pockets of poverty. The census tracts high unemployment, high poverty. And these tax incentives, the eight that we announced in the past few months, obviously the condition warrants a designation. The application process that's put forth. In the RCs it was basically on need. The EZs, obviously a performance plan had to be put in place as well.

But as I look at Syracuse, Congresswoman Kelly, we have right now they're expanding a mall in Syracuse. It's a 1.5 million square foot operation right now. They're going to add 4 million square feet to that. That is now in the Empowerment Zone. And hearing from that developer and the people associated with that, they're really looking forward to the tax credits that they will be able to provide to the businesses that are going to be there.

So it does what we'd like it to do. It's going to give opportunity to businesspeople to go into areas where they would traditionally not go, create jobs, better quality of life.

Mrs. KELLY. I have a little concern, because if you say in Syracuse they're using the money to develop a mall, the people living in and around an area need to be able to partake, I think, of these Empowerment Zones. And if you build a mall, will those folks be able to shop there at the mall? Will they be able to get into the mall? My concern is that tax incentives may not be enough to do this.

I haven't talked to the other Members of the subcommittee, so I don't know how they feel about this. But I feel that there is a concern in two things. The way that you get a business in there, you have to have somebody who's got a viable business plan. I was under the impression that the Empowerment Zones were to help people in that community develop and build a business. Some of those folks may not have enough equity to even get a loan in some respects. And I'm concerned that they be able to participate rather than use it for something like a mall.

I don't know what the conditions were in Syracuse, so I can't answer that, but you could and maybe you can help me understand. I'm just searching for some information.

Mr. BERNARDI. Well, many of the employees, to take advantage of the wage credit for example, in the Empowerment Zone, that businessperson would have to hire someone that lives in that zone. And obviously people living in those zones are designated as zones that really need an awful lot of assistance.

Mrs. KELLY. Excuse me, sir, but is that a mandate? That they have to, if they use that?

Mr. BERNARDI. Yes. The wage credit——

Mrs. KELLY. It is a mandate that they hire people who live in that zone?

Mr. BERNARDI. Have to live in that zone, yes.

Mrs. KELLY. Thank you.

Mr. BERNARDI. And if they live in that zone, obviously they have a better opportunity for employment.

Mrs. KELLY. Well, from what you said, it implied that they have to hire someone who lives there. If they cannot find an appropriate person, then they're allowed to reach out?

Mr. BERNARDI. Yes.

Mrs. KELLY. To hire someone from outside the EZ?

Mr. BERNARDI. If they do that, though, they don't have the $3,000 wage credit that comes with that employee who resides in that zone. And it's not just that zone. It's any of the census tracts that are within the entire zone of course. But those census tracts, for the most part, it's high unemployment, high poverty. In the designation process, that's what it was tailored to do was to help people, especially low and moderate income people.

Mrs. KELLY. How does it work, then, if the people are living there—suppose I'm Jane Q. Housewife but I've got an absolutely terrific cookie recipe and my name is Mrs. Fields and I live in poverty, but I've got this really neat cookie recipe. I can't do it with tax credit because I've got nothing but my recipe. How do you help me?

Mr. BERNARDI. Well, talking for a community, they all have the community development block grants. There are other programs that can be utilized to assist people startup business. And in fact, a good percentage of monies that are utilized by each community can be utilized for economic development to provide assistance to people who want to be entrepreneurs, who want to start their own business.

Mrs. KELLY. I just want to pursue this just one more step and that is, I'm sorry. I just need to get it so I understand. When you say you can get CDBG money, do you help people get that? Is there an integration from what you are doing with an EZ to something like reaching into CDBG so if somebody comes and says I'm in the EZ, I want the money, you will turn to them and say you can get the money out of CDBG?

Mr. BERNARDI. The community itself establishes how they're going to expend their CDBG dollars. But there are other programs and dollars that are available. Obviously each community I would believe would spend those dollars to encourage people to create businesses, to become entrepreneurs. But the real purpose of this is to provide businesses the opportunity. I understand what you're saying about the individual person who perhaps wants to start a business. But, you know, that person needs employment. And this is going to be geared to small businesses, large businesses, taking advantage of those opportunities. And I think the program, there will be approximately $300 million for each EZ as opposed there was only $500 million total in the Round II EZ designation.

It's taking at the other end. It's giving people and opportunity to create their business, to make their way of life and to save money. I mean, this money is not going to come into the U.S. Treasury if all of the $22 billion is utilized. So on the one hand, obviously,the Government is not giving money, but the money is not going to be there because these businesspeople are taking advantage of it. And I think in this country you give businesspeople an opportunity if they can look at their bottom line and see that something good is going to happen, they're going to go ahead and make those kind of investments.

And we have provided to everyone the Tax Incentive Guide for Businesses, and there will be a followup to this which just lists, there's a myriad of opportunities here when it comes to capital gains and deductions and bond financing. It's a great program. And we have an awful lot of enthusiasm for it. And we know that we need to market it and that we need to make sure that when we have this conference that we just don't let the conference end there, that we get out in the communities both from headquarters and from our field offices.

Mr. MILLER. You're going to have conclude this question. We are a little bit over. Thank you, Mrs. Kelly.

Mrs. KELLY. I'm sorry.

Mr. MILLER. Those were good questions.

Mrs. KELLY. Thank you.

Mr. MILLER. Mr. Clay.

Mr. CLAY. Mr. Bernardi, can you tell me when does HUD plan to award the fiscal year 2002 funds?

Mr. BERNARDI. They will be awarded within the next month.

Mr. CLAY. HUD also claims that Round II EZs are not spending their money when 65 percent of the funds were only awarded last year. What is HUD's policy on awarding these non-competitive grants? What is your policy?

Mr. BERNARDI. Obviously the policy is to have the expenditure rate be in a timely way. I think as was already indicated here, I think 23 percent of the funds have been expended. Other people have testified that there's a significant amount of money that's been obligated of that $330 million. But until a contract is in hand. I mean, arrangements are obviously made between an EZ and the people that they're doing business with, but once the contract is completed and the process goes back to HUD, then HUD obviously releases that funding.

And with the $3 million approximately that each EZ will receive for 2002 in the next month or so, I mean we feel that there's no jeopardy to any of the programs or any of the engagements that these EZ communities have made with prospective businesspeople.

Mr. CLAY. Now you also——

Mr. BERNARDI. The utilization hasn't been there for the tax incentives. Obviously we want to concentrate on that. We really want to market that. We want to make sure that everyone uses it to the utmost advantage. It hasn't been done. Probably a lot easier to just have a grant and provide a certain amount of dollars to a businessperson as opposed to having that businessperson sit down and understand through the tax system exactly how much money can be saved and how they can start a business and take it to their advantage.

Mr. CLAY. But keeping in mind that the EZs were 10-year programs that started from the ground up from community-based planning, you do keep that in mind as a Department?

Mr. BERNARDI. Sure. And the tax incentives are going to be for all of the EZs, not just the Round III EZs and RCs. And those tax incentives will go through December 31st of 2009. So they'll have an opportunity to really utilize this over the next 7 or 8 years.

Mr. CLAY. You have also urged the use of CDBG and home funds. When you being a former city mayor and you pretty much or are aware that those funds are obligated long before those communities even receive them.

Mr. BERNARDI. Well, they may be promised.

Mr. CLAY. I mean, so isn't it kind of unfair to those communities to dilute those CDBG funds and then say OK, try to do three things now with these funds?

Mr. BERNARDI. Well, there's other programs. There's the Brownfield initiative competitive program. There's the 108 loan guarantees off of the CDBG. I mean, obviously communities right now utilize their CDBG programs, their 108 loan guarantees, their Brownfield initiatives, economic development initiatives, to create business opportunities. You can leverage that as well into other areas.

Mr. CLAY. Let me, on a more local level, let me make you aware of St. Louis's unique situation. We are the other EZ that crosses State lines and several county lines. It requires a coordination of several county and State governments. And I just want to make you aware of that, that that is not always an easy task. And I'm sure you've looked at the situation there. Are you aware of what's going on in the St. Louis community as far as what we have obligated and what we are trying to accomplish in that EZ?

Mr. BERNARDI. Not the particular numbers of how much you've expended and how much you've obligated, no.

Mr. CLAY. Well, we're trying to fund a $100 million plan with $22 million. And I don't know. We are pleased to report that the

St. Louis regional EZ is preparing to approve another $6 million in grant requests, $1 million which will be in May, which will put us at a 55 percent spendout rate.

Mr. MILLER. Is the Member summing up?

Mr. CLAY. Moreover, the leveraging of $285 million in non-EZ funds on a 30 percent rate is second only to Miami-Date, which is $410 million at 70 percent. I just wanted to make you aware of some of the obstacles in our State.

Mr. MILLER. The Member's time has expired.

Mr. CLAY. I'm sorry. I didn't hear you.

Mr. MILLER. That's OK. The Member's time has expired.

Mr. CLAY. I was trying to put in a local pitch there.

Mr. MILLER. You made a good comment about CDBG funds and the BEDI program and 108s. We're marking my bill up tomorrow on Brownfields that decouples BEDI from 108 and CDBG, so I'm sure you'll be excited to attend that hearing tomorrow.

Ms. Capito.

Ms. CAPITO. Thank you. I'd like to make a comment about the Enterprise Community that is in my district that I testified to, that if the funding, the $250,000 that we get, is discontinued in the next round, in the next year, our efforts will absolutely not only be diminished but will probably fold.

We've played by the rules. We've built step by step. We're in a high poverty, high unemployment area in rural West Virginia, formerly coal fields, still coal fields in some instances, but abandoned buildings and people leaving this area. The ray of hope that the Upper Kanawha Valley has lies in the good hard work of the people who are trying to put together this Enterprise Community and maximize the dollars. What can I tell them when they know that private industry and private business is not going to be able to fill this gap?

Mr. BERNARDI. Well, private business and private industry can take advantage of the tax incentives that are going to be offered with this authorization. I mean, $22 billion, $6 billion of which will be used for the Round II EZs, that's about $300 million for your area.

Ms. CAPITO. We're an EC. So that's, I think, less.

Mr. BERNARDI. It would be less. You're right. Well, the opportunity to utilize those tax incentives.

Ms. CAPITO. My other question is, when we began to investigate the discontinuation of this, I think it was—I'm not sure exactly who the conversation was—it goes to the fact that all the money hasn't been drawn down and there's still money left in the accounts.

And in your comments, you say that's an indicator that those funds are not necessarily needed or an indication that they can go on without additional Federal resources, but there have got to be other places like Mr. LoBiondo's EZ and I know the EC in my area where this is absolutely not the case. So while in some in that may be the case, you know, you're absolutely zero funding out everybody and you're catching the ones that absolutely are relying on this like the Upper Kanawha Valley.

What I would like to see is flexibility so that you can look at each one specifically and see where these needs are. If there's some that no longer need to access these funds, then OK, zero them out. But there are still a lot of good, viable projects ongoing that are relying on this and need those extra years ongoing to be able to build.

Mr. BERNARDI. You're right. A good part of the expended funds have not been expended. What has been expended is approximately 23 percent overall. I don't know yours in particular. And there's obligated monies that are out there. The fact of the matter remains is that every year, Congress appropriated additional money, starting with $45 million I believe in 1999, $55 million, $185 million and $45 million in 2002. There's still money that's remaining to be expended. It'll be obviously up to the wisdom of this group and the Congress to make the final determination as to whether additional monies are going to be forthcoming.

Ms. CAPITO. Thank you.

Mr. MILLER. Mr. Capuano, you have 5 minutes, sir.

Mr. CAPUANO. Thank you, Mr. Chairman.

Mr. Bernardi, I want to make it real clear. I haven't heard anybody say that tax credits are not a useful way to entice businesspeople. It's just many of us feel that it's not the only way to do it.

I guess I'd like to ask just a basic question. Even on the tax credits, if you're a true believer in tax credits and that they work miracles and that's a great way to go, I guess I'd ask you how much would they be worth to most of the businesspeople you dealt with when you were mayor if Congress were to pass a law tomorrow that says from now on, instead of that tax credit being effective until 2009, that each year from now on, it has to be passed by two-thirds majority of both branches of the Congress? Do you think many businessmen would want to jump into bed and start throwing millions of dollars around in investment based on that kind of a lack of certainty?

Mr. BERNARDI. Well, the certainty in what we're proposing now is these tax incentives would be put into place in January of this year and go through December of 2009.

Mr. CAPUANO. No. Do you know businessmen that would want to just jump around and say, great, we'll trust—that's great? We don't know what the rules are going to be, but we're going to do it.

Mr. BERNARDI. Well, Congressman, with all due respect, I mean, you make the rules and the Empowerment Zones for Round II, the money was indicated that it would be there. Maybe it was promised, but then it wasn't there, and that's how you ended up with an earmark for the last 4 or 5 years to put the money in the budget.

Mr. CAPUANO. That's kind of what we've done to veterans as well. We kind of told them don't worry about it. Trust us. We'll take care of it. And I personally an am embarrassed Member of Congress for what we've done to veterans and breaking our promises to them. I just don't think that you tell people——

Mr. BERNARDI. No, of course not. Making promises is not why I'm here. I'm here talking about tax incentives that we feel would be a great tool——

Mr. CAPUANO. And no one is arguing that. No one is suggesting that they're not. I totally agree with you. But I also think that we need more than tax incentives, especially when we as a Government have raised the bar and raised expectations.

I was the mayor of my community as well. And I presume and some point during your tenure as mayor that you made some either tax agreements or assessing agreements with various businesspeople or interpreted zoning laws. Did you change the rules in the second year or the third year in, the fifth year in?

Mr. BERNARDI. No. Obviously you don't change the rules. But the rules have been changed year-to-year here, depending on what the Congress would like to do. I mean, the fact of the matter is——

Mr. CAPUANO. Excuse me. It's not based on what the Congress wants to do. We're in partnership with the Administration. And if the Administration had come in and said they wanted half, we'd probably say OK. And therefore, we could have governments all across this country, city and county and municipal governments, making decisions based on that. But right now I can't look at my people at home and say, don't worry. Make commitments based on we're going to get you some money this year. Why? I have the Administration zeroing it out. And it's not a matter of compromise, it's a matter of the Administration has clearly said now 2 years in a row, they don't like this program. I respect that. I understand that. That's why I had no problems voting for bills last year on the Renewal Communities. I don't have any problems with new things or changing rules prospectively. That doesn't bother me.

What bothers me is, how do you expect any municipal official, having been one yourself, to make progress or to sit down with a businessperson when they can't have the slightest idea what the rules are going to be?

Mr. BERNARDI. Well, the rules as we're putting them forth, there are going to be tax incentives. We feel strongly that the tax incentives utilized the way they can be would provide tremendous advantages to the EZs and the RCs.

Mr. CAPUANO. That's fair enough, but then you can't criticize them for not having spent money when you've changed the rules. Here's the money. Go spend it, because you're going to have some more. No, no. No, you're not. We changed our mind. We're not going to do that anymore.

Mr. BERNARDI. Not a criticism with the spending. The fact of the matter is that HUD over the past few years hasn't done its due diligence in monitoring the expenditure of those funds.

Mr. CAPUANO. I won't even argue that point. I'll accept that point.

Mr. BERNARDI. What we're proposing is that we feel strongly that these tax incentives, utilized as they can be, utilized by each one of the EZs and the RCs, can provide tremendous advantages, more so than a grant could. Obviously——

Mr. CAPUANO. I will repeat myself for the third time in this 5-minute period.

Mr. BERNARDI. Grants, obliviously everybody likes grants. We utilized grants when I was mayor of the city of Syracuse. But we feel at this particular point in time with the money that's in the pipeline for the EZs, especially Round II——

Mr. MILLER. Another 20 seconds, sir.

Mr. BERNARDI. That there's enough funding there that we take a look at give us 12 to 24 months to see how we can go ahead with the tax incentives.

Mr. CAPUANO. No one. Again, I guess—I don't know where the communication failure is. No one here has said anything bad about tax incentives.

Mr. BERNARDI. And we're not saying anything bad about grants.

Mr. CAPUANO. Well, but you are. You're saying we're not going to give them anymore. They don't work.

Mr. MILLER. Your time is concluded, Mr. Capuano.

Mrs. Jones, you'd have to yield him time.

Mrs. JONES. I'll yield him 2 minutes.

Mr. MILLER. I yield 5 minutes to Mrs. Jones who yields 2 minutes to Mr. Capuano of her time.

Mr. CAPUANO. Thank you, Mr. Chairman. But you have. By saying you don't support them, that is something bad. And again, I understand and I actually would support a comment that says, henceforth for new, for Round III, Round IV, Round V, whatever we're going to do—or there won't be anymore. Just last year we did the Renewal Communities different, a little different twist. I voted for that. Why? Because there's no one way that works and just because a program is not necessarily working the best way it can doesn't mean that you keep going.

Same thing with public housing. My same arguments there. No one in their right mind would build public housing in the way half of the public housing across America has been built, yet what do you do? Walk away from it? No. Over time you change the rules for future public housing. Mixed housing, different grants, different awards to builders. You try different things that work. And the same is true here. I just think it's dead wrong to turn to communities and to turn to businesspeople trying to work with these communities and simply say we don't think it works any longer, so therefore, for those of you who were already working together, forget it.

To say to them prospectively, that's not a problem to me. But to say it retroactively, which is effectively what this is doing, to me it's about as unfair, and by doing that, you invite the lack of expenditures because you invite businesspeople to walk away from the table.

Mr. BERNARDI. It was just pointed out to me that our position is to postpone it until fiscal year 2005 to give the opportunity to implement the plans for the tax incentives for the EZs and the RCs. I know that's not going to satisfy you, but that's——

Mr. CAPUANO. I respect that. But again, I don't have any problem with the prospective part of it. For new communities coming in. But postponing it says the same thing. We have no faith in this, and so therefore if we postpone it this year, there's no guarantee. As a matter of fact we're telling you, we're probably going to come back next year and say we don't like it again for the third time. There's nothing here to give anybody any hope whatsoever except Congress imposing its will against a reluctant Administration that says you may not feel committed to this, but we do, and we're going to live up to this commitment, which I think is a bad message to send. We should be in this together, particularly as a former mayor.

Mr. BERNARDI. We are. We're committed to it. But the tax incentives in the past have not been utilized, and they were much less than they are now. And I think part of that is based on the fact, Congressman, that the grants have been the bloodline, if you will, of the economic opportunities in these zones.

Mr. MILLER. Time has expired.

Mr. BERNARDI. I think it's time to utilize the other end, the other tool.

Mr. MILLER. Thank you. In all fairness to the Assistant Secretary, we in Congress are the ones who established Round II and Round III and didn't implement language that would have created the programs you wanted.

Mrs. Jones, you have 3 minutes, ma'am.

Mrs. JONES. Thank you, Mr. Chairman.

Good afternoon, Mr. Secretary, how are you?

Mr. BERNARDI. Good. How are you today?

Mrs. JONES. I'm doing great, thanks. Explain to me what you are going to zero out. What funding you are going to zero out and why for these programs. And do they only affect Round II and III or do they affect I as well?

Mr. BERNARDI. There's no funding for Round III.

Mrs. JONES. OK. Round II.

Mr. BERNARDI. Round II, the money, $330 million, there's another, the remaining $45 million in 2002 will be dispersed to the communities within the next month.

Mrs. JONES. But there was some discussion—I'm sorry. Go ahead.

Mr. BERNARDI. We're not going to be taking money away, if that was your question.

Mrs. JONES. Well, I don't know. I was trying to kind of clarify what my colleague, Mr. Capuano, was saying. What I do know is that in some instances in other sections of HUD, not the empowerment necessarily, but some of the housing areas, particularly with public housing, there was some discussion in fact in this most recent legislation that we were dealing with that if they had not used funds that those funds would be zeroed out and no additional funds would be allocated for a particular program. That is something that the Department plans to do because there is a statement that those funds are not being appropriately used. I wish I could be a little more specific for you, Mr. Secretary.

Mr. BERNARDI. There are programs obviously in HUD where if the money isn't expended over a certain period of time, it goes back to the Treasury. But in the Empowerment Zones, the Round II that you're speaking of, that money has been appropriated and it will be utilized.

Mrs. JONES. And the issue that I thought he was raising about it being funded out is not really an issue. Is that what you're saying to me?

Mr. BERNARDI. The money that's been appropriated, the $330 million, the last installment is $45 million, which will be given to the 15 communities within the next 30 days.

Mrs. JONES. OK. What's the best thing about Empowerment Zones from your perspective as Assistant Secretary, sir?

Mr. BERNARDI. Well, when we made the designations for Round III and I traveled to some of the areas to make those announcements, what it really does is it energizes the opportunity knowing full well that they can bring their total business community to the table.

You look at the Empowerment Zones that have been successful in Round II, if I may——

Mrs. JONES. Well you only can may for about 30 seconds, then I'm out of time. But go ahead.

Mr. BERNARDI. OK. Then let me just say that the benefits are is that the areas, the census areas that have been designated where the poor people reside, areas that have been neglected. And what we really want to do is to retain businesspeople there, bring them into that area, have them create jobs and opportunities, especially for the residents of those areas.

Mrs. JONES. Let me just real quickly, I think I might have 30 seconds left. One of the issues that was raised early on about Empowerment Zones in the city of Cleveland was similar to what my colleague, Mrs. Kelly, was saying about the fact that there are businesses, startup businesses that would want to take advantage of the Empowerment Zones who are not eligible to do so. That was one of the issues raised in Cleveland. And I guess I'm out of time. The only thing I want to say is, if there are some issues about the Empowerment Zones in the city of Cleveland, I would surely like to be given any information that would assist me in helping them or continuing our work. Thank you very much.

Mr. BERNARDI. And you're very welcome.

Mrs. JONES. And I yield the balance of my time.

Mr. BERNARDI. And if I may, Cleveland——

Mr. MILLER. Sometimes being gracious comes with a price.

Mrs. JONES. He's complimenting Cleveland. Hold on a second.

Mr. BERNARDI. Cleveland has done an excellent job with its Empowerment Zone designation.

Mrs. JONES. Thank you very much. I'll take that back.

Mr. MILLER. Well, sometimes being gracious does come with a price. But nevertheless. Mr. Assistant Secretary, thank you very much for your testimony today. Are there any concluding remarks you'd like to make?

Mr. BERNARDI. Just that we want to continue working with the subcommittee and the Congress. Obviously there's always a difference of opinion. The fact of the matter remains that when grants are utilized and they're utilized effectively, like you heard from some of the speakers here, that's wonderful. But at the same time—and I'm not here to say grants are not effective. I'm here to say that we really need to do more with incentives for the businesspeople in this country. This country is a great country. There's always business opportunities, and if we can give people a tax break, that's really what they're looking for at that end when they start putting their business in place, I think it would be beneficial for all of us. Thank you, sir.

Mr. MILLER. Well, thank you for your excellent testimony. We're now going to call up Panel III. Mr. Rahall I believe has an introduction. I'd like to notice the gentleman for an introduction.

Mr. RAHALL. Thank you, Mr. Chairman. I appreciate first the opportunity that you, Chairwoman Roukema and Ranking Member Frank have extended to me to allow me to join you here this afternoon to introduce a constituent of mine. Where is she?

Mr. MILLER. Would the panelists take their seats, please?

Mr. RAHALL. There she is.

Mr. MILLER. So we know who we're introducing here.

Mr. RAHALL. She is Cathy Burns, the Executive Director of the Huntington, West Virginia/Ironton, Ohio Empowerment Zone, which of course is on the border of West Virginia and Ohio, that part of Ohio being represented by our colleague, Ted Strickland. And if he were here—maybe he's already been here—I'm sure he would join me in accounting for the tremendous benefits that Empowerment Zone has given our constituents.

Cathy Burns is a native of West Virginia, a graduate of Marshall University in Huntington, West Virginia. She worked for the mayor of Huntington as a grant writer and then moved to the Department of Development and Planning. Under her leadership the Department earned national recognition as a top performing Enterprise Community and a model of excellent community and economic development.

Ms. Burns played a role, a key role, in getting the Huntington/Ironton area designated as a Round II Empowerment Zone and in September of 1999, she was hired as its executive director. Through her diligent work and the diligent work of her staff, the Huntington/Ironton Empowerment Zone has created 620 jobs in Huntington. It has renovated buildings, developed sites for future industrial use, created new housing and childcare facilities and created school-based training and services.

In addition, the Huntington/Ironton Empowerment Zone has created another 715 jobs in the surrounding region. As this subcommittee is acutely aware, the fiscal year 2003 budget includes no new funding for Empowerment Zones. And I joined other Members of the Empowerment Communities Caucus in urging President Bush and the appropriators to fund Empowerment Zones at least at the fiscal year 2002 levels. I received a letter back from Mr. Daniels, Director of the OMB, saying the Administration did not request additional funds because, quote: "most EZs have been slow to spend their grants." Daniels also said, and I quote: "The Administration believes that tax benefits are the driving force behind these programs and that additional grants will not increase their effectiveness."

Members of this subcommittee, I'm sure you're aware of these quotes. Nothing is new. I do thank you for giving me this platform to rebut these charges and certainly to allowing the witnesses today to do such as well. First the Empowerment Zones are not slow to spend their grants. They draw down the funds as necessary. Under the able hand of people like Cathy Burns, the Huntington/Ironton Zone has committed 100 percent of its funds, but has actually drawn down 43 percent of the funds to pay for projects as they progress while leveraging over $120 million in the process.

So that shows that just because, and the point is, just because the money hasn't been spent doesn't mean the money hasn't been put to work.

And second, tax benefits are not the only driving force behind the Empowerment Zones. I've heard statements from the directors of many Empowerment Zones discuss their projects.

Mr. MILLER. May I ask you to conclude your introduction?

Mr. RAHALL. Yes, sir, I will. And they each say that tax credits are just one tool in a package. Empowerment Zones need cash to work with tax credits.

So finally, Mr. Chairman, I do thank you for indulging me. We're all working to overcome the recession, stimulate the economy, and it is a mistake for the Administration to zero out this vital program.

So I again thank you for allowing me to be here, and I introduce Cathy Burns from Huntington. I know we have another member from Huntington, West Virginia on the panel as well that will be introduced by his Congresswoman. Thank you.

Mr. MILLER. Thank you, Mr. Rahall. Appreciate that.

Mrs. Capito, you have two introductions.

Mrs. CAPITO. Yes I do. I would like to introduce two members of the panel and recognize a third gentleman who is with them. They're all three associated with the Upper Kanawha Valley Enterprise Community.

First I would like to recognize Ben Newhouse, who is in the audience. He's the Executive Director of the Upper Kanawha Valley Enterprise Community. Thank you for being here with us, Ben, and thank you for your dedicated service.

I also would like to introduce two who will testify. First is Mayor Damron Bradshaw, who is Chairman of the Upper Kanawha Valley Enterprise Community. He's a United Methodist Church pastor, mayor of the town of Chesapeake, and he's a wonderful community support for that town and for the area that he represents.

Second, and last but not least, I would like to introduce the Honorable W. Kent Carper, who is Kanawha County Commissioner for over 6 years. I have known Kent for a very long time, and he's been very active in all aspects of economic development in the Kanawha County. Welcome to Washington.

Mr. MILLER. Thank you. The first witness will be the Honorable Jim Sauro, Freeholder Director, Cumberland County, New Jersey. You have 5 minutes, sir.

STATEMENT OF HON. JAMES SAURO, FREEHOLDER DIRECTOR, CUMBERLAND COUNTY, NEW JERSEY

Mr. SAURO. Thank you very much. First I'd like to thank the subcommittee for allowing me to testify on how important the Empowerment Zone is to Cumberland County.

As the Cumberland County Freehold Director, I dream of creating a program that would benefit the citizens of Cumberland County. You have created such a program, a program that I would love to say was my idea.

In Cumberland County we have one of the highest unemployment rates, the lowest per capita income, and I'm sorry to say, one of the highest tax rates in the State of New Jersey. Over the years, businesses have been slowly leaving our area, but along came a fantastic opportunity named the Cumberland County Empowerment Zone, a program you created, a program that provided the flexibility and the foresight to meet the needs of our community and a program that has already had a significant and long-lasting impact on our county.

Cumberland County is finally moving forward with the assistance of the Empowerment Zone. By having the Empowerment Zone and the Urban Enterprise Zone work hand-in-hand, we are able to offer and entice businesses to come to our community. In just a short time we have created over 300 jobs, expanded existing businesses and helped a number of non-profit organizations that serve the citizens of Cumberland County.

Now I want you to imagine having a great idea that you would like to implement and start on your own. But after completing a business plan, you realize that you just can't quit making the payments to the bank. Now you find out about a program that allows you to have access to capital at a low interest rate; that gives you tax incentives for being in that area and that gives you incentives for hiring people from that area. Now you get all of those savings and you put them into the business plan and you realize that you can open the business because you can now make the payments. You are not only able to open your new business, but now you are revitalizing the area and hiring individuals from that area, again making people and yourself self-sufficient.

I'm going to deviate a little bit from this testimony. Being a small businessperson myself, being involved with the Chamber of Commerce in Vineland, you cannot operate a business only on tax incentives because they don't last the whole amount of time. When you're able to get a low interest loan that lasts the whole 10 or 15 years, you can actually figure that into your business. This is what helps a businessperson. Big businesses might benefit with tax incentives and capital gains. A small businessperson is not going to benefit that much from these programs. It's called hard earned cash.

Now with the Cumberland County Empowerment Zone, they're not just giving you the money. You have to qualify. You have to sit there and do a business plan. You have to prove to them that your plan is going to work. And then when you create that business and put that business in that area, you are making that area better, and people are working in that business from that area. So what happens? We turn around and revitalize it and you're making a person be self-sufficient.

Cumberland County is moving in the right direction. If funding were not to continue, all the good that has been done and the initiatives that have been started would be in vain. We have a number of projects that we wish to implement, and businesspeople are waiting for answers that would lead to additional jobs and ratables. But we can't give them answers, because we need the answers from you.

It is easy to think of this program s just job creation. But it is not. It is creating a quality way of life, allowing people to have confidence in themselves by making them able to take care of their families on their own. It also brings pride back to the community and changes people's attitude from maybe it can be done to how can we make it happen? When people's attitudes change, positive things happen.

I will now allow the Executive Director of Cumberland County Empowerment Zone to give exact details and figures of the program and its successes. Hopefully after hearing his and the other testimonies, you will understand how important this program is to our community. Please continue to keep the American Dream going by giving people a chance to own their own business and to become self-sufficient. You are doing that right now with the Empowerment Zone. Thank you.

[The prepared statement of Hon. James Sauro can be found on page xx in the appendix.]

Mr. MILLER. Thank you, Mr. Sauro.

The next speaker will be Mr. Gerard Velazquez III, Executive Director, Cumberland Empowerment Zone, New Jersey. You have 5 minutes, sir.

STATEMENT OF GERARD VELAZQUEZ III, EXECUTIVE DIRECTOR, CUMBERLAND EMPOWERMENT ZONE

Mr. VELAZQUEZ. Thank you, sir. I would also like to thank you for the opportunity to speak before you today. And at the risk of taking all my time by regurgitating information you already have in front of you, I want to focus on a couple of major points.

I think one of the things that's been lost throughout the testimony today is that the Empowerment Zone program was created as a 10-year strategic plan, a strategic plan that made local communities come together, think about how they could revitalize their entire community, and then implement that strategy over the long term. When we talk about businesses and their strategic plans, we actually give accolades to the businesses that create a business plan, implement that plan and then change that plan as change is needed to meet the requirements of each community.

The beauty of the Empowerment Zone program was that it did just that. It made us work together as a community. In Cumberland County we have four different cities that are involved in our Zone, and those communities had to come together to create a plan that made sense, that created revitalization over the long term.

We just completed a local business survey in our community, and we asked the businesses to indicate to us what the top five priorities were for the community for business development in a community. Number one was workforce. Number two was neighborhood revitalization. Number three were working with Government in overcoming regulations. Number four was crime and vandalism, and number five was the need for access to capital.

When we had discussions today in testimony, what was definitely lost throughout the conversation was that the Empowerment Zone program is a business program and also a neighborhood revitalization program; a program that allows us to take the opportunity to step back and implement.

We've talked about obligation of funds. In Cumberland County, we've obligated 100 percent of funds to particular projects that we're going to invest in over the course of the next 18 months. We are quite frankly proud of the fact that we've not spent our money. We're proud of the fact that we have money that's still sitting in the treasury, because that means that we are monitoring our programs. That means that we are taking careful consideration to make sure that each program that we fund meets its milestones either for a business starting up, for a program that's serving the community, or for a project that's under construction. We only fund based upon each project meeting its milestone. So for us, the idea that we haven't spent our money is exactly what we thought we were supposed to do.

Now we're being penalized because the consistent terminology or the consistent issues that continue to come from HUD are you haven't spent your money. Well, quite frankly, we have spent our money. We will continue to spend our money. And if we rush to spend, in essence we're total disregarding the strategic plan that was set up initially, the strategic plan that tells us exactly how we should move forward over the course of 10 years. Keep in mind, there's some testimony that said this is a 5-year program. This program was funded in June of 1999. That means from June of 1999 to now, we have received $19 million. Three million dollars was approved in November. We're still waiting for the final contract.

So again, from 1999, June of 1999 until today, that should be the time that's being looked as far as how the Empowerment Zone has been around.

The other key thing I want to talk about are tax incentives versus grants. Tax incentives are very important tools for attracting and retaining businesses in our Empowerment Zone. We quite frankly have been called from Empowerment Zones and Enterprise Communities throughout the country asking us how we utilize our tax incentives. And everybody wants to know, how do you use the money, how do you get businesses in a process. And we've used the tax incentives in our community. However, one of the things I want to point out is we have a tax incentive program in our community called the Urban Enterprise Zone, which is a State program similar to the Empowerment Zones. One of our communities received 75 percent of all the new businesses that come into the community.

Mr. MILLER. You have 30 seconds, sir.

Mr. VELAZQUEZ. The reason for that is because they have cash. They have money that's lent to the businesses that want to locate into that community that assist them with the tax incentives. So tax incentives are equal across the board in each of our communities. However, one of our communities, because they have cash available to lend to these businesses who want to locate in our county, is receiving 75 percent of all the new business. Thank you.

[The prepared statement of Gerard Velazquez III can be found on page xx in the appendix.]

Mr. MILLER. Thank you very much. I want to say that it's important that you know that you're here to have your words put in the record so we understand the situations you face in your communities. And don't let the lack of attendance today bother you. This is very common, especially when we're in recess for the day. So don't take it personal. Don't take it that nobody's paying attention because the record is being kept, and that's what's important.

Thank you very much for your testimony. Next will be Mr. Damron Bradshaw, Chairman Upper Kanawha Valley Enterprise Community, West Virginia. You have 5 minutes, sir.

STATEMENT OF DAMRON BRADSHAW, CHAIRMAN, UPPER KANAWHA VALLEY ENTERPRISE COMMUNITY, WEST VIRGINIA

Mr. BRADSHAW. Thank you, Mr. Chair. We appreciate the opportunity to be here today. Our 3-year-old community lies within three census tracts over 20,000 residents. This area has a population of 25 percent of the residents being below the poverty guidelines and 19.8 percent unemployment. This area includes parts of Kanawha and Fayette Counties in rural Appalachia.

We have two county commissions, five municipalities and the remainder are residents that live up at the creeks and hollows and along the Great Kanawha River, having mostly two-lane roads. We have one hospital, a college, three watersheds, two clinics, several secondary schools and small businesses. Today we still have coal mining, which for the time being is a major positive economic factor in our communities. However, we and other economic development entities feel that new vibrant businesses and technology must be attracted to our area.

Demolition and cleanup will provide some sites, but the methods of attracting development are critical and complex, but we have proved we're up to the task. We're an organization helping to structure our community as an attractive place to live and do business. Our Enterprise Community, just 3 years old, is helping to utilize ideas and knowledge moving us to the place that Congress intended when the zones and the communities were established.

The effect has been very beneficial to the economic and community development of our area. It has allowed new businesses to enter the area due to tax credits that come along with the designation of Enterprise Community. It also allows funding availability to clean up some of the Brownfield sites that before would never have been addressed.

Our Enterprise Community is neither self-sustaining nor self-reliant. If our Enterprise Community goes unfunded or even partially funded, it cannot leverage enough other monies into the area to allow economic and community development. Enterprise Communities, as opposed to Empowerment Zones, are not fully funded and only receive abut $250,000 per year. Therefore, we're in a constant struggle for alternative funding to bring infrastructure and housing and economic and community development and rural renewal to our areas.

House bill H.R. 2637, if passed, will improve the ability of our Enterprise Community to provide essential development activities that tax incentives alone cannot do. With a continued Enterprise Community, the ability to leverage other monies, we can help provide investment capital and begin revolving loan funds as well as site preparation and small business incubators and shell buildings.

We have other agencies in the area with which we collaborate to provide customized workforce training and placement and supportive services that allow job creation and placement. In the 3 years of guaranteed funding that we have received, we have parlayed our seed money of $750,000 into a leveraged $84 million for this community. We would hate to see that cease in the future if the expected Federal commitment is not continued.

We've been most effective in soliciting new businesses by providing a business incubator through leveraged money that our county commission and then-Congressman Bob Wise solicited for us, which allows new small businesses to start and to grow.

The business incubators allowed space for education and training. In our satellite locations, which are actually offices of our collaborative entities, we have provided computer training for youth and seniors alike. If the expected Federal commitment is continued, and by networking with other entities we can be an integral part of providing training for the disadvantaged residents that we have and see that unemployed and underemployed residents have another opportunity to be part of the workforce.

We have used the funding that we have received very prudently. It has gone for administrative costs as well as infrastructure, helping to upgrade water facilities for a financially strapped municipality. The money has been used to help a senior nutrition center be able to start a hot food program. We have spent the money to help at least three watershed organizations and other nature and ecological programs. We have kept our staff at the proper level so that more money can actually go into the community.

Mr. MILLER. You have 15 seconds, sir.

Mr. BRADSHAW. The tax incentives have helped where infrastructure is in place, but infrastructure is needed besides. The people will not come to the area with their businesses if infrastructure is not in place. We appreciate the difficulty that you have, but we do appreciate the thoughts that you have and we urge you to continue the funding. Thank you.

[The prepared statement of Damron Bradshaw can be found on page xx in the appendix.]

Mr. MILLER. Thank you, sir.

The next speaker will be the Honorable W. Kent Carper, Kanawha County Commissioner, West Virginia.

STATEMENT OF HON. W. KENT CARPER, KANAWHA COUNTY COMMISSIONER, WEST VIRGINIA

Mr. CARPER. Good afternoon, Mr. Chairman. Your comment a little bit ago about us not being dissuaded by the empty chairs is why we're here. I'm a County Commissioner from one of the poorest States in our country. We've lost tens of thousands of people in our county. That impact is incredible. In the last several years we have lost thousands of jobs, coal mining jobs, chemical jobs, jobs that are irreplaceable in today's economy.

Two years ago, Congress got it right when they funded this program. I defined it at that time as the turning point for our county. Today the loss of this program to us would revisit a tragedy that we don't think we can take.

I've listened to the comments of those who have testified here earlier. They're correct. Business has to have predictability. And this program no longer has predictability, as it may be funded, it might be funded, it might be this and it might be that. That's doing damage to the program almost to the point as if the program was not funded at all.

Perhaps I just don't understand or appreciate the way the program is being judged by the Administration. The percentage of spending equals whether or not a Government program is a success or a failure. I guess if the program wasn't so important to us I would just say send us the money and I will guarantee you we'll spend 100 percent of it quickly. The fact that the ECs and the EZs have been responsible and careful and diligent have proven the success of the program.

What we're basically asking Congress to do is to do what our congressional representative, Congresswoman Shelley Moore Capito has done, that is, recognize how important this program is, how vital it is. The area that I represent has been determined by you, the Federal Government, as being an area of pervasive poverty with high unemployment. Well, we have about a 20 percent unemployment rate in this area, which is why we have this program to try to turn it around. And the truth of the matter is, we would have greater than 20 percent if the 10, 20 or 30 thousand people who have left our county because they can't find a job were still there.

I know that we have limited time to speak. We are honored to participate with you. We urge you to revisit the decision made by the Administration. We really don't think we can take another hit in an area that has been hit time after time economically. Thank you so very much.

[The prepared statement of W. Kent Carper can be found on page xx in the appendix.]

Mr. MILLER. Thank you, sir, for your testimony.

The next witness will be Mrs. Cathy Burns, Executive Director, Huntington, West Virginia/Ironton, Ohio Empowerment Zone. You have 5 minutes, ma'am.

STATEMENT OF CATHY BURNS, EXECUTIVE DIRECTOR, HUNTINGTON, WEST VIRGINIA/IRONTON, OHIO EMPOWERMENT ZONE

Ms. BURNS. Thank you. I just want to say that when we received the designation, Huntington, West Virginia/Ironton, Ohio, we had the economic tools, the cash grants and the tax incentives, and we made a 10-year commitment to improve the economic opportunity for our zone residents. That partnership, as you know, is at risk for two reasons. The Administration claims that the expenditure rate is slow. HUD's data, though, is only based on the withdrawals from the Federal treasury. My zone has one of the highest expenditure rates. But more importantly, 100 percent of our funds are committed. But even more important than that, of the 12 Round II zones self-reporting, over 80 percent of the funds are committed.

So a policy decision has been made based on not enough data, and that's unfortunate. But good economic policy is more than just how quickly you spend your money. We should be evaluated based on the projects that we invest in, projects that should drive our economy for leveraging other funds and for measurable jobs above the average local wage, and that's exactly what we've done in our community. We've invested in premier projects that fill the gap.

We've invested in Kinetic Park, a technology business. Technology parks are not a new thing, but it's the fact that we've attracted Amazon.com East Coast Customer Service Center and the American Foundation for the Blind to be tenants in this park makes it unique. That would not have been possible just relying on the tax credits, because there was a significant amount of earthwork needed to do this project. The same thing applied in South Point, Ohio at the industrial site that Congressman Strickland mentioned. That project also would have never gotten off the planning shelf had we only had the tax incentives to use. We had to have those cash grants in order to get those projects from the planning shelf to the implementation.

We've created over 690 jobs just within our Zone. And Assistant Secretary Bernardi has said that he wants to spend the next 2 years with HUD to develop a plan to market the credits. Well, in all due respect, I've been marketing these very tax credits that Congress passed since 1994, and they have limitations. I'm not saying that they don't work, but they are limited—there's an assumption made that if they are marketed more fully, they will be used more fully, and that is not true, because we've been doing it since 1994.

These tax credits were never adopted to be a stand-alone credit. They always had in mind to have the grants to go along with it. And let me just tell you real quickly what the Amazon deal. They didn't qualify for the 179 deduction because they were not separately incorporated. They didn't qualify for the wage credit because at that time we didn't receive it. They made a $1.5 million investment, which is a pretty tremendous investment, but it was not large enough to qualify for the tax exempt bonding. This is just an example of how these credits have limitations. Sometimes they work and sometimes they don't, and that is why you need these cash grants to fill the gap.

Another thing that we know is, Wal-Mart is who is using these credits. But Wal-Mart can locate 10 miles outside of your zone. Wal-Marts typically don't want to locate in your inner cities where there's higher poverty and higher crime. That's why we had the zone designation to begin with. Wal-Mart can claim the majority of these tax credits just as easily as a business in my zone. So what's the benefit for them locating in my zone? They can claim the work opportunity tax credit. They can claim the welfare-to-work tax credit without ever stepping foot in my zone.

So therefore, that's another limitation of these tax credits, sometimes they work and sometimes they don't. But our goal is to get businesses to locate in our zone where we already know historically we have higher poverty and we have a larger number of people on unemployment who need training. And that is why the cash grants have to work in cooperation with the tax credits.

In conclusion, I would just say that by taking away the cash grants, you're seriously impeding our progress. As I mentioned before, I have no problem utilizing the credits, but they don't always work. They're not the answer to economic development. Any economic development professional will tell you that cash is really what drives an economic deal. The credits are a little bonus at the end, but it's the cash grants that truly make the deal work. Thank you.

[The prepared statement of Cathy Burns can be found on page xx in the appendix.]

Mr. MILLER. I thank you for your time. The testimony was excellent. I hope you're enjoying Washington, DC. Visit your local congressman. That's what you're here for. I ask unanimous consent to submit for the record a joint statement by Congressman Amo Houghton, Thomas M. Reynolds and Jack Quinn. Without objection, so ordered. And I ask unanimous consent to submit for the record a statement by John LaFalce. Without objection, so ordered.

The Chair notes that some Members may have additional questions for the panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for Members to submit written questions to these witnesses and place their response on the record.

Without objection, so ordered. This hearing is adjourned. Thank you.

[Whereupon, at 4:07 p.m., the hearing was adjourned.]

A P P E N D I X

April 10, 2002

Opening Statement of the Honorable Marge Roukema
Chair
Subcommittee on Housing and Community Opportunity
Committee on Financial Services

"Review of the Empowerment Zone/Enterprise Community program"

Wednesday, April 10, 2002

Today the Subcommittee on Housing and Community Opportunity is meeting to review the Empowerment Zone/Enterprise Community program.

In 1993, the 103rd Congress set in motion a major economic development initiative designed to revitalize deteriorating urban and rural communities by enacting the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993, P.L. 103-66), which established the Empowerment Zone/Enterprise Communities (EZ/EC) program. The EZ/EC program targets federal grants for social services and community redevelopment, and provides tax and regulatory relief intended to attract and retain businesses in designated areas.

Federal funding for EZs and ECs is made available through the Title XX Social Service Block Grant (SSBG) program. As with other SSBG funds, those allotted for the EZ/EC program are granted by the Department of Health and Human Services (HHS) to the States, which are fiscally responsible for the funds. The authorizing legislation provided for a one-time appropriation of $1 billion for HHS to be made available in SSBG funds over the 10-year life of the program, thus ensuring that Round I designated areas would not be dependent on annual appropriations, as is typically the case.

The program originally consisted of six urban and three rural areas designated as Empowerment Zones (EZs). An additional 60 urban and 30 rural areas were designated Enterprise Communities (ECs) which received a smaller package of Federal incentives. Each urban EZ was allocated $100 million and each rural EZ was allocated $40 million in SSBG funds for use over ten years. All of the urban and rural ECs were allocated just under $3 million in SSBG funding. In 1997, Congress added Cleveland and Los Angeles as Empowerment Zones and designated them for purposes of funding as part of the Round I EZ.

In 1997, Congress created Round II of the EZ/EC program, authorizing the designation of 20 additional EZs (15 urban and 5 rural). Round II EZs were given a different mix of tax incentives and unlike the Round I EZs, the enabling legislation for Round II zones did not include (SSBG) funding. Businesses in the Round II EZs are eligible for more generous tax-exempt financing benefits than those in Round I EZs. Round II EZs are also eligible to designate up to 2,000 acres of underutilized "developable property" outside the formal Zone area where it can receive Zone benefits and be used for job creation for Zone residents. For example, Indian tribes with poverty areas also qualified to apply for and receive designation.

The TRA of 1997 did not appropriate SSBG funds, as had been available to Round I EZs and ECs. For FY 1999 through FY2002, Congress approved a total of $22 million in funding for each of these Zones. The HUD/VA appropriations bill for FY 2001 provided each urban EZ with $5 million in SSBG funding. It also provided a total of $15 million in SSBG funding for Round II rural EZs and ECs. A total of $10 million was for the five rural EZs ($2 million each) and $5 million for the rural Enterprise Communities ($250,000 each). The 15 urban Round II EZs received a total of $330 over ten years.

The 106th Congress passed the Community Renewal Tax Relief Act of 2000 as part of the Consolidated Appropriations Act of 2001 which authorized the Secretaries of HUD and Agriculture to designate nine additional Empowerment Zones (seven urban and two rural) and also included provisions that impact Round I and II EZs.

For example, the designation of EZ status for Round I and II zones (other than the District of Columbia) was extended through December 31, 2009 and the 20 percent wage credit was made available in all Round I and II zones for qualifying wages paid or incurred after December 31, 2001. Further, $35,000 (rather than $20,000) of additional section 179 expensing was available for qualified zone property placed in service after December 31, 2001.

This hearing will examine the EZ/EC program generally and then focus on the discrepancy in funding between the Round I, II, and III zones. Witnesses have been asked to comment on the progress of EZs in their respective states. In addition,witnesses have also be asked to comment on H..R. 2637, the Round II EZ/EC Flexibility Act of 2001, which authorizes specified urban and rural empowerment zones and permits the use of those funds for zone or community strategic plan implementation. The legislation would also provide for the use of Federal funds to pay matching fund requirements and prevents an empowerment zone or enterprise community from losing Federal funding because of reclassification as a renewal community.

We look forward to hearing from each of our witnesses this morning and I will now turn to the Ranking Minority Member, Congressman Frank.

Prepared, Not Delivered
Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Housing and Community Opportunity
"A Review of the Current Status of Empowerment Zones and Renewal Communities"

Wednesday, April 10, 2002

Thank you Madame Chairwoman.

Today the Housing Subcommittee reviews a very important program that revitalizes distressed communities, both in rural and urban areas: the Empowerment Zones/Enterprise Communities, as well as Renewal Communities.

While Empowerment Zones were created in 1993, the impetus first started with former Congressman and HUD Secretary Jack Kemp who promoted using tax incentives and deregulation as a lever to incentivize the private sector to invest in community pockets where poverty and unemployment were dominant factors of everyday life. He called them Enterprise Zones. It was a belief that private and public investment could strengthen communities and provide a hook to the economy for those traditionally left behind.

Since 1993, Congress has created many Empowerment Zones, Enterprise communities and Renewal Communities, all with different mechanisms to achieve the same goal of revitalizing communities. Up until the creation of Renewal Communities in 2000, the Empowerment Zones were also provided Federal funding for social services, as administered by the Department of Health and Human Services.

Moreover, there was some concern early-on about the politicization of the Empowerment Zone process and whether social service Federal block grant funding was necessary. It appears that in the last nine years, however, there have been some successes, such as in Harlem, New York, and in some cases, disappointment. It is unclear to what extent an improved economy contributed to the renewal of these communities or what can be solely attributed to the creation and Federal funding of Empowerment Zones.

We do know, however, that we appropriated $1 billion for Round I Zones, with smaller allotments for Enterprise Communities. Moreover, we've appropriated approximately $330 million for 15 Round II urban Empowerment Zones in 1997 and approximately $40 million for 5 Round II rural zones.

Oxley, page two
April 10, 2002

At issue today in these hearings is the Administration's proposal to suspend funding in FY 2003 for Round II Empowerment Zones. As I understand, when these additional 15 urban and 5 rural zones were created in 1997, there appeared to be a misunderstanding about whether Congress promised to provide the same amount of funding for Social Service Block Grants as the $1 billion in Round I.

While it is not clear whether the suspension of a FY 2003 funding request is related to whether promises were made to fund Round II zones, it does appear to be an appropriate opportunity for this Committee to assess the Empowerment Zone program and determine how Congress should move forward.

I look forward to hearing the testimony to assist this Committee. I would like to welcome my colleagues Messrs. LoBiondo of New Jersey, my fellow Ohioan Ted Strickland, and Financial Services Committee Member Mrs. Shelley Moore Capito.

Finally, I want to extend a special welcome to Ms. Cathy Burns who is the Executive Director of the Huntington, West Virginia-Ironton, Ohio Empowerment Zone. We appreciate your work to improve the communities bordering our state.

Thank you Madame Chairwoman for your leadership on this issue.

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Representative Shelley Moore Capito, M.C.
"Review of the Empowerment Zone/Enterprise Community Program"
April 10, 2002
Room 2128 Rayburn House Office Building

ORAL TESTIMONY

Madam Chairwoman, Ranking Member Mr. Frank, at this time, I would like to begin by thanking you for holding this all-important hearing on the current status of the Empowerment Zone and Enterprise Community program. I would also like to acknowledge the hard work and support that my colleague Mr. Rahall and his staff have performed on behalf of the EZ/EC program in our home state of West Virginia.

In 1997, while serving as a state delegate in the West Virginia Legislature, a portion of my district known as the Upper Kanawha Valley in Kanawha County, along with portions of Fayette County in Mr. Rahall's Congressional district, competed with numerous other community development groups from around the country for selection to receive federal grant funding as a designated Round II Enterprise Community. My fellow members, it gives me great pleasure to sit here before you today some 5 years later to give evidence and report on the remarkable progress and achievements that have been realized by that same determined and highly successful economic development group now known as the Upper Kanawha Valley Enterprise Community.

It is worth noting that, in the last 4 years alone, the Upper Kanawha Valley Enterprise Community has been recognized as a top 5 Enterprise Community nationally that has skillfully leveraged an astounding $84 million in private-sector investment and state and local matching funds for the $1 million in federal grant funding that the UKVEC has received over the past 4 years.

As you will soon learn here today, the hard work carried out by those associated with the Upper Kanawha Valley Enterprise Community has been demonstrated in countless acts of volunteerism and community development. From a new small business incubator to health clinics and community centers, the local residents, business owners, elected officials, and UKVEC staff have all truly made the Upper Kanawha Valley Enterprise Community an indispensable tool for economic development as one of this nation's more successful EC's!

In closing, I would like to state for the record my sincere appreciation and full support for Representative Lobiondo's hard work and dedication in introducing H.R. 2637, the "Round II EZ/EC Flexibility Act of 2001." If we truly value all of the progress and economic development resulting from the EZ/EC program, then we must enact a measure that both secures continued funding and maintains flexibility. H.R. 2637 would restore and safeguard adequate funding levels while allowing each individual EC and EZ to continue implementing their own economic development plans within a framework that works best for their particular regional character and makeup. I know just how successful these programs have been because I have seen their potential first hand, and if we have to hold these funding deliberations again next year or the year after that, then I will gladly come before this committee to voice my full support for the Empowerment Zone and Enterprise Community program. Thank you Madam Chairwoman.

Julia Carson
Member of Congress

Congresswoman Julia Carson
10th District, Indiana
Opening Statement
First Hearing on H.R. 3995, the Housing Affordability for America Act of 2002
April 10, 2002

Madame Chairwoman, I would like to thank you for the work you have done in convening hearings regarding the dearth of housing available to low-income Americans. I would also like to thank all the witnesses for their attendance. I look forward to their testimony.

The Administration and the proposed budget for HUD emphasize and dedicate enormous resources to helping people realize the dream of homeownership. For many this dream is becoming increasingly illusive. Even before the economy began to slow, there was a decline in the availability of affordable housing across the nation. Today, the lack of decent and affordable housing is creating a crisis.

As would be expected, this crisis is certainly disastrous for the most destitute of Americans, and the disaster does not end there. Lack of affordable housing is a problem that is affecting more and more of America's working families. It is hurting people from all walks of life, including teachers, police officers, municipal workers and even people who work here in Congress.

We need a spirited and thoughtful debate on how to reverse this trend, and I am happy to be part of it. Congresswoman Roukema should be commended for bringing a bill like this to the committee. While we may disagree on particulars, it is warming to know we share many of the same concerns.

I am particularly interested to hear the position of our witnesses on the proposed changes to the HOME program. The HOME program is probably the most popular Federal Housing program among state and local governments. It is popular because it works. We must make certain that any changes proposed to the HOME program are thoroughly scrutinized and that no rash decisions are made.

I am a cosponsor of H.R. 2349, the National Affordable Housing Trust Fund, introduced by the Honorable Bernie Sanders. H.R. 2349 is a different approach to achieving the same goal we all want, to increase the stock of affordable housing. This approach, which

I favor, leaves the HOME program as it is and establishes a separate Housing Trust that has worked well for hundreds of communities. I am looking forward to hearing our panels' testimony on this proposal as well.

One of the other key issues that have been raised time and again is the utilization of Section 8 vouchers. Some Members of this committee will ardently support the use of funds recaptured by the Section 8 program for the purpose of funding the construction of more affordable housing. I can't agree with that approach. This committee should direct it's resources to increasing utilization rates for Section 8 vouchers. As more affordable housing is made available, Section 8 utilization should rise, and will make a poor source of funding for other programs.

The affordability of housing is one of the most pressing issues that faces our communities, our cities, our states and our country. I am sure that today's hearing will allow some thoughtful insight into how we can best deal with these problems, so that we can stop talking and get down to business.

COMMITTEE ON
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Opening Statement
Subcommittee on Housing
Committee on Financial Services
Reviewing the Current Status of
Empowerment Zones and Renewal Communities
April 10, 2002

Madame Chair, thank you for calling this hearing, and for focusing on the important issue of Empowerment Zones (EZs) and Renewal Communities (RCs).

Madame Chair, EZs were established 1993, 1997 and 2000. There are major discrepancies between EZs designated in these three rounds.

In 1993, HUD was authorized to name six urban EZs, which received $100 million each in mandatory, Social Services Block Grants (SSBG) funds. In 1997, 15 further urban EZs were authorized. However, in these 1997 EZs, only tax benefits were authorized. Nevertheless, the Congress saw fit to appropriate $22 million in funding for each Round II EZ from 1999 through 2002.

In 2000, Congress authorized eight more EZs and 40 Renewal Communities (RCs). The 2000 law set up a valuable basket of tax breaks for all EZs and RCs, not just the "Round III" group.

This year's budget request from HUD did not request funding for the Round III group. We will hear later how lack of funds limited success for our communities. Tax cuts are great. I support tax cuts. Everybody likes tax cuts. But the needs of communities go far deeper than just business investment. A broad range of strategies is vital, from tax incentives to more direct assistance.

Madame Chair, I appreciate the fact that tax incentives are often viewed as being too complex to be worth the hassle. So I appreciate HUD's plans to market the EZ concept. I think HUD is dealing with tough numbers that OMB provided and I don't envy the Assistant Secretary. But I do think we are going to need some funding for these communities.

Record

Statement of

Rep. John J. LaFalce

Before the

Housing and Community Opportunity Subcommittee

Hearing on Empowerment Zones

April 10, 2002

I commend the Chair for holding this hearing on Empowerment Zones and Enterprise Communities. In particular, the hearing deals with H.R. 2637, which addresses a number of implementation issues with respect to EZ's and EC's. Among these provisions, I would like to call attention to Subsection 2(c) of this bill, which provides that no area that loses their classification as an Enterprise Community or Empowerment Zone would lose federal funding as a result of being reclassified as a Renewal Community. I think this a worthy provision; after all Renewal Community status is designed to enhance, not subtract, resources to that community.

I would also like to take this opportunity to speak out on another technical correction that I and a number of my colleagues are pursuing that also deals with trying to make the Renewal Community program more effective.

The Renewal Community program was enacted into law at the end of last Congress, and just recently the 40 Renewal Communities authorized by that legislation were designated by HUD, which is charged with running this program. The Renewal Community legislation will provide tax incentives for businesses which locate in the distressed census tracts that make up a Renewal Community, and hire workers within those communities.

The problem is that the legislation was enacted into law, and the designation of communities took place prior to, the 2000 census data being fully available. Therefore out of necessity, the poverty and income qualifications that dictate whether a census tract may or may not be included in a Renewal Community relied on 1990 census data.

However, as 2000 census data becomes available, it creates the anomaly that legislation designed to rejuvenate areas with rising poverty and declining economic conditions and population effectively ignores what has taken place over the last decade. The very census tracts that have declined economically the most over the last decade, as confirmed by objective economic data, are unnecessarily excluded from favorable investment treatment designed to reverse such economic decline.

This makes no sense. That is why last fall -- even prior to any Renewal Communities being designated -- I introduced bi-partisan legislation to provide a technical correction to address this anomoly. Along with Representatives Quinn, Reynolds, and Houghton, I introduced H.R. 3100, which would allow the expansion of Renewal Communities to include census tracts which are not eligible under 1990 census data, but which are eligible under 2000 census data.

If this legislation is adopted, any Renewal Community could apply to HUD for expansion of their boundaries to include census tracts that, but for the use of outdated census information, meet all the requirements of the legislation.

I am pleased to report that identical legislation has been introduced in the Senate by Senators Schumer and Clinton. And, the House and Senate sponsors have a pending request in with the Joint Committee on Taxation to have this legislation scored, with the anticipation that this should not be a large cost.

I understand that the Financial Services Committee does not have jurisdiction over tax matters, but Renewal Communities are a subject of this hearing, since HUD administers this important program. Therefore, I wanted to make members of this committee aware of this bill, and I hope that H.R. 3100 can be brought up under suspension, or alternatively folded into any larger tax bill which might be considered this year.

In closing, I appreciate the opportunity to speak on this legislation.

STATEMENT
FRANK A. LOBIONDO
COMMITTEE ON FINANCIAL SERVICES SUBC.
HOUSING AND COMMUNITY DEVELOPMENT
WEDNESDAY, APRIL 10, 2002 2:00 PM

Chairman Roukema, Ranking Member Frank and my colleagues on the Subcommittee, thank you for your efforts in making this hearing possible to review the current status of Round II empowerment zones. Congressman Capuano and I co-chair the Empowered Communities Caucus, a bipartisan group of Members who have Round II empowerment zones and enterprise communities located in their Congressional Districts. I am pleased that Panel III of today's hearing includes Jim Sauro, Freeholder Director of Cumberland County, New Jersey and Jerry Velazquez, the Executive Director of our empowerment zone. In just two short years, the Cumberland County Empowerment Zone has leveraged nearly $10 in private investment for every one dollar of public funding. I am proud that our Zone has received the prestigious IEDC Economic Development Award and is widely recognized as one of the top three Empowerment Zones in the country.

As you know, the Empowerment Zone/ Enterprise Community initiative provides special federal assistance to support the comprehensive revitalization of designated urban and rural communities across the country. It is a 10 year program that targets federal grants to distressed urban and rural communities for social services and community redevelopment and provides tax and regulatory relief to attract or retain businesses. The federal investment generates funding at the state and local level as well as from the private sector.

The original Empowerment zone designations in 1994 received full funding as an entitlement, making all grant awards available for use within the first two years of designation. Unfortunately, this has not been the case with the Round II designations. Benefits promised with this designation included flexible funding grants of $100 million for each urban zone, $40 million for each rural zone and about $3 million for each Enterprise community over a 10 year period beginning in 1999. Round II zone designations were required to prepare strategic plans for comprehensive revitalization based on the availability of $100 million in Federal grant funding over 10 years (1999-2009). Unlike the round I designations, Round II zones have only received a small fraction of funding, none of which has been up front. As a result, our zones lack the certain and predictable funding stream to implement their strategic plans, and must seek an annual appropriation to secure the promised Federal grant award.

Cumberland County Empowerment zone is a collaborative revitalization strategy between the communities in my District of Bridgeton, Millville, Vineland and Port Norris.
Cumberland is the second fastest spending zone in the nation, having committed 100% of the nearly $19 million that has been made available by HUD so far. Over 1100 jobs will be created in this zone over the next 18 months, if the federal funding source continues. Over 100 housing units have been renovated rehabilitated, constructed or purchased in EZ neighborhoods and a $4 million loan pool is available to be reinvested back into the targeted communities. Cumberland County has funded over 60 initiatives through the EZ program, utilizing $11,627,563 in

funding. These projects are estimated to leverage a total of $123,948,631 in private, public and tax exempt bond financing. The future success, viability and sustainability of the empowerment zone strategy and more importantly, our communities hinge on the ability to continue to attract and leverage private investment. It is imperative that existing Round II empowerment zones receive multi-year funding to facilitate the implementation of the long term strategy plan as required by each Zone.

The Federal funding commitment to EZ Round II remains largely unfulfilled, impeding the implementation of Zone projects and threatening continued non-federal support. Through FY02, each Round II Urban zone was appropriated only $22 million versus the $40 million projected in the application process - $3 million in FY99, $3.66 million in FY00, $12.3 million in FY01 and $3 million in FY02.

EZ partners in the private sector will continue to be reluctant to commit their own resources without a guarantee that EZ funding will be available to complete their project.

Last year, I introduced, along with Mr. Capuano and several other Members, HR 2637, which would authorize funding and correct certain inconsistencies with the Round II Empowerment Zone/ Enterprise Community program. When Round II empowerment zones were originally designated, it was envisioned that they would be supported with mandatory funding from the Social Services Block Grant. However, because of constraints in SSBG funding, these zones have instead been funded through annual discretionary appropriations. My bill would address this issue by establishing a formal funding authorization for urban and rural empowerment zones and enterprise communities through the Financial Services and Agriculture Committees. HR 2637 also includes language to allow specific authorization for grants to be used as matching funds for other relevant federal grant programs, all in an effort to offer the EZ/EC program maximum flexibility at the local level. Allowing use of EZ/EC funds to meet the local funding contribution mandates of other federal grant programs conforms with the principles and objectives of the empowerment zone initiative, as well as the precedent set by the Community

Development Block Grant program for flexible community revitalization grant mechanisms.

I request my colleagues on this Subcommittee consider including the language in my bill as you prepare to report Housing authorization legislation out of this Committee.

As you will see by the testimony presented today by witnesses from the various Zones around the country, the empowerment zone effort is consistent with bi-partisan urban policy priorities, such as (1) supporting community based organization efforts to deliver services and revitalize distressed areas; (2) increasing private-public partnerships; (3) removing federal regulatory barriers; and (4) promoting models of performance-driven accountability. This federal designation in my Congressional District has brought promise of new opportunity and economic hope, investment, job creation and development throughout Cumberland County. Our communities have already invested considerable resources in securing their EZ designations. Congress has a responsibility to carry out its promise to these communities by making federal funds available to ensure new jobs, revitalize neighborhoods and spur economic growth over the next decade.

STATEMENT OF THE HONORABLE NICK J. RAHALL, II
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING
Hearing to review the current status of Empowerment Zones and Renewal Communities
Wednesday, April 10, 2002
2:00 p.m., 2128 Rayburn

Thank you, Chairman Roukema, Ranking Member Frank, and Members of the Subcommittee for allowing me to join you today to introduce my constituent, Cathy Burns, the Executive Director of the Huntington – Ironton Empowerment Zone, helping people in West Virginia and Ohio. Our colleague Ted Strickland and I can account for you the tremendous benefits the Empowerment Zone has given our constituents.

Cathy Burns is a native of West Virginia and graduated from Marshall University of Huntington, West Virginia. She worked for the Mayor of Huntington as a grant writer, and then moved to the Department of Development and Planning. Under her leadership, the Department earned national recognition as a top-performing Enterprise Community and a model of excellent community and economic development.

Ms. Burns played a key role in getting the Huntington – Ironton area designated as a Round II Empowerment Zone, and in September of 1999, she was hired as its Executive Director.

Through Cathy Burn's diligent work, and the diligent work of her staff, the Huntington - Ironton Empowerment Zone has created 620 jobs in Huntington, renovated buildings, developed sites for future industrial use, created new housing and child care facilities and created school-based training and services.

In addition, the Huntington – Ironton Empowerment Zone has created another 715 jobs in the surrounding region.

As you know, the fiscal year 2003 budget includes no new funding for empowerment zones. I joined other Members of the Empowerment Communities Caucus in urging President Bush and the appropriators to fund empowerment zone at least at the fiscal year 2002 levels.

I received a letter back from Mitch Daniels, Director of the OMB, saying the Administration did not request additional funds because "Most EZs have been slow to spend their grants." Daniels also said "The Administration believes that tax benefits are the driving force behind these programs and that additional grants will not increase their effectiveness."

Chairman Roukema, and Ranking Member Frank, I thank you for giving me a platform to rebut these charges. First, EZs are not slow to spend their grants. They draw down the funds as necessary. Under the able hand of Cathy Burns, the Huntington-Ironton Empowerment Zone has committed 100% of its funds, but has actually drawn down 43% of the funds, to pay for projects as they progress, while leveraging over $120 million in the process.

Just because the money hasn't been spent doesn't mean the money hasn't been put to work.

Second, tax benefits are not the only driving force behind empowerment zones. I have heard statements from the directors of many empowerment zones discuss their projects, and they each say the tax credits are just one tool in a package – empowerment zones need cash to work with the tax credits.

Finally, at a time when we all are working to overcome the recession and stimulate the economy, it is a mistake for the Administration to zero out funding for the Empowerment Zone (EZ) program in the fiscal year 2003 budget proposal.

It is wrong for the Administration, and the budget resolution that just passed in the House, to attempt to balance the budget by kicking Empowerment Zones. Cathy Burns and her colleagues at all empowerment zones are working diligently and creatively to expand their economies and improve the quality of life for all their residents. And it is particularly unfair to cut them off in mid-stream. Many of these communities' development plans are built around the expectation of ten years' funding.

In order to solve the funding problem, I am pleased to co-sponsor Mr. LoBiondo's bill, HR 2637, the "Round Two Empowerment Zone\Enterprise Community Flexibility Act of 2001" to ensure full funding for empowerment zones and rural enterprise communities across the nation through 2009.

What the Special Forces are to the war against terrorism, Empowerment Zones are to our economic security. No one can dispute the real results we have seen in West Virginia, that Cathy Burns will describe. The parts of West Virginia and Ohio that the Huntington – Ironton Empowerment Zone covers are in Appalachia. For those people who need a job, a decent home, or basic life skills, this unique program can be a ticket to success.

I want to thank you again for holding this hearing, and I know you will be impressed with the achievements Cathy Burns will describe to you.

Committee on Financial Services
Subcommittee on Housing and Community Opportunity
April 10, 2002

Testimony of Congressman Ted Strickland

Thank you Madame Chairwoman and Members of the Subcommittee for the opportunity to testify today on the important work being done by Empowerment Zones. EZs across the nation are similar in the positive economic impact they have on communities, but they differ greatly depending on whether they were designated in the first round or the second. Empowerment Zones in both rounds receive various tax incentives, but only Round I Empowerment Zones receive mandatory appropriations in the form of cash grants. On the other hand, the twenty Round II Empowerment Zones are forced to depend on the vagaries of annual discretionary appropriations for their funding. The Round II Empowerment Zone in Ironton, Ohio and Huntington, West Virginia, is one of only two EZs that straddles a stateline, and I am pleased to voice my support for this critical economic development initiative. In addition, I am honored to welcome Cathy Burns, administrator of the Ironton/Huntington EZ, who will testify before you later today.

One of the most exciting projects on the Ironton side of the Ohio River is the development of an industrial park called The Point. The former home of an ethanol plant, The Point is a designated Superfund Site that recently completed remediation and currently awaits the start of Phase I construction. Once construction begins, Ironton hopes to see an influx of approximately one thousand jobs, which is significant growth for a city of 11,000 people. Projects like The Point are essential to impoverished regions like Appalachia. Industrial parks mean more jobs, and more jobs mean a stronger economy, and a stronger economy is what will allow cities like Ironton to compete with its more developed neighbors. The Point is just one of many developments in the Huntington/Ironton Empowerment Zone, though, and the availability of federal grant money is fundamental to each of those.

As I'm sure Cathy Burns will tell you better than I can, tax incentives alone simply cannot get the job done. Although tax incentives are an important component of each Empowerment Zone's mission, the projects that many of these communities pursue would be impossible without the ability to offer cash grants. When the Round II communities applied for EZ status several years ago, their applications were judged on the strength of their economic impact over a ten-year period. The goals that they hope to accomplish by 2009 are predicated on the delivery of the funding they were promised. For this reason, I find it very troubling that the President, in his budget for Fiscal Year 2003, has not provided any money for Round II EZs. If our goal is to revitalize distressed communities, we must recognize that it cannot happen without an infusion of cold, hard cash.

I recently received ***this letter*** from the Director of the Office of Management and Budget, Mitch Daniels. In his letter, Mr. Daniels writes that "tax benefits are the driving force" behind the EZ program and that most grant money for Round II EZs has not been spent. I have met with many leaders in the Huntington/Ironton area, and I can say that tax benefits are *not* the driving force behind the initiative; the driving force is undeniably the cash grants. In the most technical sense, Mr. Daniels may be correct in saying that all of the money has not been quote unquote "spent," but it has been obligated, allocated, budgeted, or otherwise committed to secure private investment in the community. In fact, as Cathy Burns will tell you later, the Empowerment Zone in my district has taken the $18 million in federal grants that it has received and used it to leverage more than $120 million in private funds. It would be hard, if not impossible, to find another federal program whose return on investment is so great. If an Empowerment Zone can be so successful after just three years, imagine if it were allowed to develop unfettered for the full ten.

I'm pleased to say that I'm not alone in this opinion. The conferees to the Fiscal Year 2002 VA/HUD Appropriations bill reported that they believed that the EZ program "should be funded as a mandatory program." Similarly, the House Budget Committee, in its report to the Fiscal Year 2003 Budget Resolution, states that it "strongly supports the continued funding of . . . Empowerment Zone . . . initiatives . . . at least at the level pledged by the Round II designation of 1999." The Budget report goes on to say that "[i]n competing for designation, [Round II] communities were selected for their thoughtful use of Federal funds over a full ten-year cycle, not on how quickly they could withdraw funds from the Treasury."

The Administration, in its budget proposal for Fiscal Year 2002, recommended that $185 million be appropriated for Empowerment Zones in the current Fiscal Year, and foresaw a request for $150 million for Fiscal Year 2003. I was puzzled to read that the President had zeroed out the initiative in his request for Fiscal Year 2003. My strong hope is that we in Congress will push for mandatory funding for Round II Empowerment Zones, but that we not settle for less than the continued funding of a commitment that we made to these communities. Cutting short an initiative that's already seen so much success, and whose potential is even greater, would be a tragedy for the many communities that prosper under the program.

STATEMENT OF ROY BERNARDI
Assistant Secretary
Office of Community Planning and Development
U.S. Department of Housing and Urban Development

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

April 10, 2002

Good morning Chairwoman Roukema, Ranking Member Frank, and distinguished Members of the subcommittee. My name is Roy Bernardi. I am the Assistant Secretary for Community Planning and Development in the Department of Housing and Urban Development. On behalf of Secretary Martinez, I want to extend our commitment to work with you to improve the effectiveness of the Empowerment Zone (EZ) and Renewal Community (RC) programs as an effective tool for the revitalization of America's urban and rural communities.

Let me begin by quickly reviewing funding for Round I, Round II, and Round III Empowerment Zones. The Omnibus Budget Reconciliation Act of 1993 authorized HUD to designate six urban EZs by December 1994. Each EZ received $100 million each in mandatory, Social Services Block Grants (SSBG) funds.

The Taxpayer Relief Act of 1997 authorized HUD to designate 15 urban Round II EZs by January, 1999. Only tax benefits were authorized; however, the 1999 and 2000 budgets proposed 10 years of mandatory grants totaling $1.5 billion. Instead, Congress appropriated discretionary funding for Round II EZs from 1999 through 2002 totaling $330 million or $22 million for each zone.

Most recently, HUD designated eight Round III urban EZs and 28 urban and 12 rural Renewal Communities (RCs) on December 31, 2001, authorized by the Community Renewal Tax Relief Act of 2000.

The Community Renewal Tax Relief Act of 2000 provides a valuable array of tax incentives, which brings the total to more than $22 billion and applies to all EZs and RCs until December 31, 2009. The Administration did not request grants for the Round III Empowerment Zones because we believe tax incentives are the driving force behind economic revitalization and job creation in Empowerment Zones. The Round III EZ and RC competition reflected this emphasis and generated a great deal of enthusiasm. As suggested in the President's Fiscal Year 2003 budget, the Administration believes that economic revitalization can be better served by utilizing the $22 billion in tax incentives or on the average approximately $300 million per Empowerment Zone and Renewal Community.

To improve the effectiveness of Empowerment Zones, HUD plans on focusing on two main areas. First, we are implementing an aggressive and comprehensive plan to market the existing tax incentives to businesses and individuals in the 30 Empowerment Zones and 40 Renewal Communities that HUD has designated. The perceived complexity of tax incentives creates numerous challenges for local governments. Second, Secretary Martinez has made it a priority to improve HUD's monitoring system to better track the performance and financial compliance of grantees. Special attention is being paid to obligations and the timely expenditure of funds. Collectively, Round II EZs have drawn down only $66 million ($66,448,543.83 as of April 9, 2002) or 20 percent of the $330 million ($329,593.00) million awarded, which suggests that communities can move forward with their plans without additional Federal resources.

The committee has expressed a concern about the use of existing Appropriations. Traditionally, HUD tracks progress towards milestones and outputs through an annual reporting process, and the Department shares the Committee's concern about performance.

HUD's Interim Assessment of the Empowerment Zones and Enterprise Communities (EZ/EC) Program (November 2001) looks at a sample of Round I EZ/ECs to attempt to determine the impact of the program. The research found a modest, but significant impact in the economic well being of the Round I EZ/ECs, particularly as concerns unemployment. Because the impact is modest and there are competing inputs of the program; for example, strategic planning, grants and several tax incentives, there is no convincing evidence that the grant program in and of itself increased the program's effectiveness. The report concludes that businesses have insufficient knowledge of the incentives, and I will come back to this issue in my closing comments.

Our goal at HUD is for Empowerment Zones and Renewal Communities to make a dynamic shift to self-sufficiency and sustainable development. For example, rather than planning around another custom made temporary grant program, our most recently designated Round III Empowerment Zones brought over 100 commitment letters from the private sector, non-profits and other public entities.

The Committee asked HUD to explain the merits of tax incentives versus grants. The Round I EZ/EC Initiative was based on an approach that included both grants and tax incentives. The Department believes tax incentives should be the center of its job creation efforts by helping small businesses grow, creating an entrepreneurial environment, and showing to large corporations that these economically challenged areas represent opportunities with great hope. The variety of tax incentives such as employee wage credits, reduced capital gains, increased deduction of property expenses, zero percent interest in bonds for schools and economic development projects - provide an opportunity for success among a much larger pool of individuals. In light of the potential benefits exclusively earmarked to EZs and RCs, the Department believes that if utilized, tax incentives can be a far more effective tool for revitalizing distressed areas than grants, and truly make these areas the place where individuals with vision decide to locate their businesses.

The Department has invited all EZs and RCs to an implementation conference in Washington, DC from May 20 - 22 to learn about the valuable tax incentives they control as well as determine ways that they can market them. The success of EZs will stem from grass roots implementation in communities. If EZs are implemented properly, the results can be more immediate, with more dollars and greater opportunity remaining in these distressed communities. The Department's most recent information shows that businesses in EZs have made only a modest use of the Federal tax incentives. Our concern is that a large infusion of federal grants to Round II EZs may continue to create situations where the large majority of the EZs fail to take full advantage of the tax incentives. Even with our Department's aggressive efforts to train and guide EZs and RCs they must decide if they will take advantage of the $22 billion tax incentive package. We will provide conference calls with the communities, regional update seminars, weekly faxes, and HUD headquarters and field staff working with EZs and RCs.

We fully believe that these tax incentives, for the communities and individuals who embrace their power, will help small businesses grow, attract new businesses and provide job opportunities. These very important parcels of land truly can provide wonderful economic opportunities for all Americans today.

Statement by
Damron Bradshaw
Upper Kanawha Valley Enterprise Community

Statement

On December 24, 1998, the Upper Kanawha Valley Enterprise Community (UKVEC) of Kanawha and Fayette Counties, West Virginia, was established by the Community Empowerment Board chaired by Vice-President Al Gore. The simple premise behind the establishment of the organization and other Empowerment Zones and Enterprise Communities was to abolish poverty and assist the businesses and residents of their respected areas. With 25% of the UKVEC population in the poverty level, the time had come to enact an organization that has the capability of collaborating other organizations, programs, funding, and new initiatives. From the past three years experience with the UKVEC, it's very evident the intent of the past White House administration was to empower local citizens and groups.

The UKVEC receives a small allocation of funding through the U.S. Department of Agriculture to enact projects and organize new programs. Every year, it's apparent that our group has a duty to convince Congress and others of the UKVEC's progress in revitalizing the community it represents. The facts are simple about Enterprise Communities and Empowerment Zones, they attract funding and they provide results. Results such as job creation, community centers, infrastructure, training and educational programs, health clinics, recreation, and so much more. How are these projects started and supported? Enterprise Communities and Empowerment Zones are locally based with their governing boards represented primarily by local residents, local business owners, and local elected officials. Professional staffs are assembled that have expertise in funding, state and federal programs, and community and economic development. With little experience or knowledge from organizations and residents of these rural areas, it's clear that the transfer of information and resources is prevalent by acquiring experienced, development minded staff that illustrate new ideas from different arenas. By bringing the governing boards and staff together, new avenues are created and hence new initiatives are developed.

Success from the UKVEC can be measured in several respects. It can be measured by the amount of new programs and funding. It can be illustrated by its increased involvement from several organizations in and around the UKVEC. We can show the increased volunteerism and community participation through the UKVEC and its partner organizations. As chairman of the UKVEC, I can say that success can be measured by the new opportunities the program brings. I can also say that success is not measured by a benchmark or a regulatory report. True progress is best illustrated when projects are conceived, funded, and developed by local individuals. The underlying fact is that many rural communities are not represented by federal, state, and other non-profit organizations. Unincorporated areas are most likely ignored or dismissed for programs and funding consideration. This is an integral part of Enterprise Communities.

Oral Testimony

The Upper Kanawha Valley Enterprise Community (UKVEC) has been in existence for three years dated April 12, 2002. The UKVEC is made up of two counties in West Virginia, Kanawha and Fayette. Our territory takes in three census tracts with an approximate population of 20,000 residents. Five municipalities are within the UKVEC along with several unincorporated areas. The UKVEC is a mountainous territory with many creek areas and two-lane roads. The population of the area is made up of mostly fixed income, senior citizens. The UKVEC does have some assets to the area that are instrumental to the revitalization of the communities; Kanawha and Fayette County Commissions, the five municipalities, West Virginia University Institute of Technology, Cabin Creek Health Clinic, Upper Kanawha Valley YMCA, Chelyan and Upper Kanawha Valley Public Service Districts, Montgomery General Hospital, watershed organizations, small businesses, and a handful of secondary schools.

For the past several decades, the Upper Kanawha Valley has been dominated by the coal and timber industries. Today, several mines are open or reopening in our area. Most communities are colored with the coal activity. Coal is one of West Virginia's assets, its one of our strengths, and it will continue to provide jobs and revenue to our area and the state. Other possibilities wouldn't be present without coal. However, the UKVEC and other organizations recognize the need for new industries and technology to attract the youthful industries. Demolition and the persistence to clean-up developable sites will be key to the construction of new buildings and sites to attract new companies. Infrastructure development such as water and sewer extensions have covered most of the UKVEC. High-speed transmission lines, new technology firms, and the development of curriculum at all educational institutions have elevated the new opportunities for technologically based companies. Organizations in the Upper Kanawha Valley realize the importance of its past and the realization of its future. Reinvigorated energy and aggressiveness is needed to serve as a catalyst for improved ideas and a mainstay for future development. The revitalization of the area is only instrumental with the retention of educated individuals and persistence of proven leadership in West Virginia. Leadership is evident in West Virginia, but the method to attracting and retaining highly trained and educated individuals to West Virginia is complex and critical. New buildings, structures, and industrial parks are under or soon will be under construction to provide new opportunities that were previously not present. There is a need to restructure the Upper Kanawha Valley and make it an attractive place to live, learn, work, and play.

In West Virginia and in many parts of the United States, there are many in need of assistance, either financially, educationally, or in a health respect. Having an organization to collaborate ideas, knowledge, and efforts is an advantage most communities do not enjoy. The simplicity behind organizing and assisting those in need is leadership. With the UKVEC's diligence and persistence toward making a better Upper Kanawha Valley, many have followed and supported what progress means to those in need. Countless examples have included contributions from various organizations on a common cause; improve the area, improve the climate for new business, improve access to clean water, improve the access to health care, improve transportation to and from the workplace, improve the sanctity and viability of a community deserving those measures.

In the past three years, the UKVEC has leveraged more than $84 million in federal, state, local, and private funding and assistance toward various projects. This makes us one of the top five Enterprise Communities in the nation with the amount of leveraged funding and assistance into the UKVEC. The UKVEC has established one health clinic and is in the process of establishing another. We have raised millions of dollars for water and sewer. We have established computer labs, meals programs, and after-school recreational and educational programs. In conjunction with the Southern Appalachian Labor School, we are currently the largest housing rehabilitation provider in the United States. We have sponsored hundreds of workshops, meetings, or seminars to bring about new opportunities. The UKVEC does not perform these functions alone. With the assistance of the governing board and staff, the practice of self-sustaining measures has been orchestrated and demonstrated to numerous individuals and organizations. The UKVEC, the U.S. Department of Agriculture, and the U.S. Congress cannot be the only means to progress and answers to the problems that persist on a daily basis. Once the countless organizations, businesses, and residents are given the experience to initiate ideas, conduct meetings, develop strategic plans, request funding, and implement strategy on their own, will there be a harmonious group who will stride to make improvements to their communities. This I believe to be one of the most crucial tasks and rewards of the Enterprise Community program.

The Upper Kanawha Valley and West Virginia are accelerating toward an improved way of life. New economic opportunities are arising, new leadership has emerged and energized new initiatives, organizations are leading the way to shape old programs into bright ideas and the births of invigorated concepts. West Virginia is not in a transition state from past industries such as coal and timber, West Virginia is an emerging state with tremendous opportunity. The opportunities have always been there, they just haven't been explored and developed. This is another important goal of the UKVEC, find new opportunities for the businesses and residents of the Upper Kanawha Valley.

Has West Virginia lacked in leadership? No. Has West Virginia lacked in determination? No. Have the residents and businesses of West Virginia and the United States been more deserving of organizations such as Empowerment Zones and Enterprise Communities? Yes.

The UKVEC thanks Congresswoman Shelley Moore Capito and her staff for their tremendous efforts in making a better West Virginia. The UKVEC also thanks Congressman Nick Rahall and his staff for their support and hard work in West Virginia. Their support is unfathomable and unwavering. The UKVEC also thanks the Finance Committee of the U.S. Congress in permitting the UKVEC to express its support for the Empowerment Zone and Enterprise Community program.

Subcommittee on Housing and Community Opportunity

Hearing Review of the Current Status of Empowerment Zones and Renewal Communities

April 10, 2002

Presented by Cathy Burns, Executive Director
Huntington, WV – Ironton, OH Empowerment Zone

Hello, my name is Cathy Burns and I administer a Round II Urban Empowerment Zone in Ironton, Ohio and Huntington, West Virginia. I'd like to thank the committee chair and committee members for allowing me the opportunity to briefly share our economic plans, economic accomplishments and the importance of the Empowerment Zone initiative.

My community, probably like the communities you represent, has seen significant economic changes over the years: changes like less manufacturing jobs, more service related jobs, less job security, more skill training, decrease in population in our cities resulting in less revenue, requiring the redevelopment of land. A community made up of people with strong values, a dedicated work ethic, but also a people recognizing the need to raise our education levels and lower our poverty numbers. A land blessed with beautiful natural resources, but limited in its economic opportunities due to a terrain very expensive to develop.

A community that, through the Empowerment Zone process, clearly identified its weaknesses and the needed solutions, including resources, risks and sacrifices necessary to overcome our limitations. In 1999, Huntington and Ironton, along with 14 other cities, were designated Urban Round II Empowerment Zones. The federal government became our partner. We had new economic tools, cash grants and tax incentives, to use and we made a 10-year commitment to improve the economic opportunity for our zone residents.

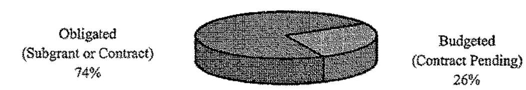
Now, that partnership is at risk. As you know, the Administration has stated the Empowerment Zone and Enterprise Community programs should be eliminated primarily for two reasons. They claim tax credits alone are sufficient to create new jobs and the expenditure rate of the current Empowerment Zones is slow.

I want to tell you from a practical viewpoint how the Empowerment Zone designation has made a tangible difference in my community and how in the past 2 ½ years we have utilized the cash grants and tax incentives to improve our region.

Effective economic development requires many economic tools, but access to cash consistently continues to be the most important tool. Cities receiving zone designation traditionally have suffered a number of economic hardships (a requirement of receiving zone status). Historically, that translates into having less funds for economic development purposes. That is why Empowerment Zone/Enterprise Community funds are so necessary.

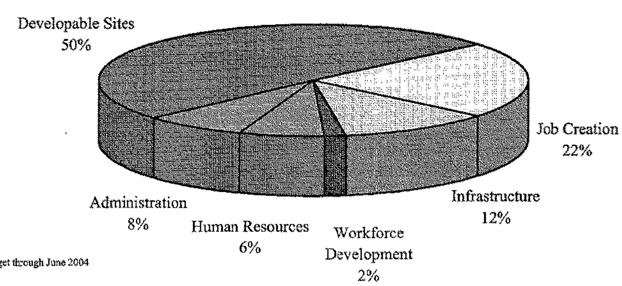
The Huntington-Ironton Empowerment Zone has committed 100% of our zone funding.

Obligated & Otherwise Committed Grant $$
Empowerment Zone Grant Totaling $18,972,866



The most recent data, with 12 Round II zones reporting, shows a commitment rate of 82% of all federal funds allocated. My zone has one of the highest expenditure rates, 47%. Of the total funds committed, 84% has been allocated to create new sites for development, new jobs and improved infrastructure. An additional 8% has been allocated on training our work force.

Percent by Project Category
Empowerment Zone Grant Totaling $18,972,866



* Admin. Budget through June 2004

But good economic policy is more than how quick you spend your money. Empowerment Zones should be evaluated and rewarded for investing in projects that drive their economy; for leveraging other funds; and for measurable jobs created that are above the average local wage. Allow me to tell you about two signature projects that meet this definition.

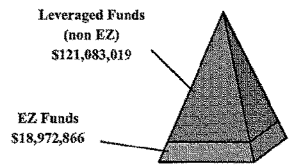
Kinetic Park, a 95-acre business and technology park in Huntington located along Interstate 64. Designed to accommodate high-tech office buildings, laboratories and other advanced facilities. Kinetic Park is a gateway into the state traveling east, as well as the gateway to enter Huntington's downtown, Marshall University and medical school. The location of the park is ideal but site development was expensive. Earth moving and installation of infrastructure will cost 10 million dollars. Without the Empowerment Zones dollars, advancing to the construction phase of this project would not have happened.

And the investment of federal dollars has been well spent since we can already celebrate the announcement of **Amazon.com East Coast Customer Service Center** and the **American Foundation for the Blind** product-testing laboratory to the site. We project at least 2000 new jobs to be created from this one project.

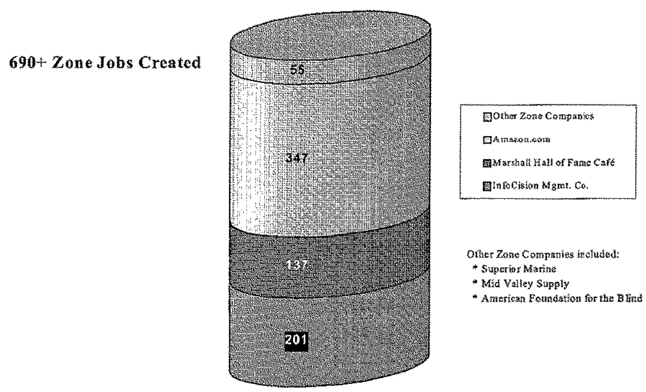
A second signature project is **The Point**, an industrial and commercial development in South Point, Ohio. This 400-acre site is located along the Ohio River, has direct access to a major Norfolk Southern railroad line and provides customized sites for development. Even though the phase 1 infrastructure contract has not yet begun, this site is generating excitement. Already, two local businesses have committed to expand their operations into this site and create an additional 50 jobs. We project as site development proceeds another 1000 new jobs will be created at The Point.

Empowerment Zone dollars enabled The Point property to be controlled and marketed by the local development authority. The local businesses committing early to locate to this site felt a trusting and amicable business deal could now be afforded to them.

Crucial to both Kinetic Park and The Point was an early commitment by the Empowerment Zone Board of Directors to the economic opportunity these projects offered. The financial pledge by the EZ enabled these projects to move from the planning shelf to reality. Additionally, EZ funds provided the foundation to garner additional financial commitments from the states of Ohio and West Virginia, other federal agencies, local entities and, as mentioned, private businesses. To date the Huntington-Ironton Zone has leveraged a total of $121,083,019.



In addition to creating new sites, my zone has created new jobs. In the 2 ½ years we've been an EZ, we have created over 690 new jobs in our zone. From 94-99, my community created over 6000 new jobs.



In my past position as Economic Development Director and now as Empowerment Zone Director, I have marketed the tax credits since 1994, and never once did a company decide to locate or expand in my empowerment zone because of the tax credits. Businesses consider the tax credits as a little bonus at the end of the transaction. When evaluating the site selector factors, businesses want availability and affordability of land, including the infrastructure in place (roads, utilities, buildings) and an available, skilled workforce. Tax credits don't make any of those factors a reality; cash does.

Amazon.com is a perfect example. Their lease improvements and equipment purchases ($1.5 million) were not enough to warrant a tax-exempt bond. They didn't qualify for 179 expensing because they were not separately incorporated and couldn't meet the 35% zone resident test. At the time they located to our zone, we didn't qualify for EZ wage credit. So, we used our grant funds to provide an incentive to the company.

Furthermore, the existing tax credits are very limited in benefiting empowerment zone areas (areas statistically proven to be in need of private investment because of higher unemployment). The majority of the wage credits and tax deductions can be used by businesses located outside of the zone boundary. Plus, a recent (November 2001) study conducted by ***Abt Associates*** concludes, "*Federal tax incentives have only been a marginal tool for promoting revitalization.*"

Grant funds have been essential to implementing our economic strategy. The tax credits can add value to our community, but the grant funds are what drive our economic development efforts.

The Huntington-Ironton Empowerment Zone has 30 projects in which we are partnering with other agencies to improve the economic opportunity of our zone residents. We have assisted in renovating buildings for expanded health care; improving the quality of housing for our zone residents; building shell buildings for manufacturing companies; designing a technology business incubator; constructing a commercial food processing facility for the production of value-added food products and more.

Projects, which are identified in our locally written economic strategy, are being implemented to raise the economic bar for our community. Continued funding is crucial to our effort. Why is the Empowerment Strategy good economic policy?

1. Local Participation and Buy-in
2. Financial Partners
3. Flexible
4. Results Oriented

My community does not want the federal government to solve our problems. We have the skills and knowledge to solve our economic problems. However, there are critical economic tools needed to accomplish our goals. Adoption of H.R. 2637 and reauthorization of the Empowerment Zone/Enterprise Community initiative will provide us the necessary tools for our economic success.

Statement
W. Kent Carper, Kanawha County Commissioner, West Virginia

Thank you for allowing us an opportunity to speak to the necessity and importance of a continuation of funding for the Upper Kanawha Valley Enterprise Community program.

I am Kent Carper, a Kanawha County Commissioner since 1996. We applied for and did not receive designation in Round 1. When we were first notified of the Round II funding, we continued our diligent work with the community to determine what the needs were and continue to be today. When the notification was received that the UKVEC had received the EC designation, the County thought it was necessary and beneficial to hire staff and provide equipment, in order that when the federal dollars were disbursed we could hit the ground running.

The Upper Kanawha Valley Enterprise Community is an area of pervasive poverty, high unemployment, and general distress.

Kanawha County used local tax dollars to begin implementation of the strategic vision for change. We know first hand, the poverty and devastation that our area suffers from. We have lost hundreds of coal mining jobs and 500 jobs in the chemical industry. Both the housing stock and resident population have suffered significant losses during the past 40 years.

Over a quarter of a million local tax dollars have been dispersed in the Upper Kanawha Valley, because we believe this area can survive and rebuild. But, we can't do this alone. We need the continued commitment from the federal government to fund this program, so that dollars spent in the Upper Kanawha Valley can continue to leverage additional dollars to improve the quality of life and break the cycle of poverty.

Congresswoman Capito has worked as a partner with us to send a clear message that this a program of vital importance to the continued development of the Upper Kanawha Valley.

The Kanawha County Commission is strongly committed to this program and has supported their endeavors to bring new jobs, affordable housing, and continued economic development to the Upper Kanawha Valley.

Thank you very much.

DRAFT STATEMENT
FREEHOLDER DIRECTOR, JAMES SAURO
COMMITTEE ON FINANCIAL SUBC.
HOUSING AND COMMUNITY DEVELOPMENT
WEDNESDAY, APRIL 10, 2002, 2:00PM

As the Cumberland county Freeholder Director, I dream of creating a program that would benefit the citizens of Cumberland County. You have created such program; a program that I would like to say was my idea. In Cumberland County we have one of the highest unemployment rates, lowest per capita income and I am sorry to say one of the highest tax rates in NJ.

Over the years businesses have been slowly leaving our area, but along came a fantastic opportunity named the Cumberland County Empowerment Zone, a program that you created, a program that provided the flexibility and the foresight to meet the needs of our community and a program that has already had a significant and long lasting impact to our county.

Cumberland County is finally moving forward with the assistance of the empowerment zone. By having the empowerment zone and the Urban Enterprise Zone work hand in hand we are able to offer and entice businesses to come to our community. In just a short time we have created over 300 jobs, expanded existing businesses and helped a number of non-profit organizations that serve the citizens of Cumberland County. I want you to imagine having a great idea that you would like to implement and start on your own, but after completing a business plan you realize that you just cant quite make your payments to the bank. Now you find out about a program that allows you to have access to capital at a low interest rates, that gives you tax incentives for being in that area and that gives you incentives for hiring people from that area. Now you get all of those savings and put them into the business plan and you realize that you can open that business because you can now make the payments. You are not only able to open your new business, but now you are revitalizing the area, and hiring individuals from that area. Again, making people and yourself self-sufficient.

Cumberland County is moving in right direction. If funding were not continued, all the good that has been done and the initiatives that have been started would be in vain. We have number of projects that we wish to implement and business people are waiting for answers that would lead to additional jobs and ratables, but we can't give them answers because we need answers from you.

It is Easy to think of this program as just job creation, but it is not. It is creating a quality way of life allowing people to have confidence in themselves by making them able to take care of their families on their own. It also brings pride back to the community and changes peoples' attitudes from maybe it can't be done to how do we make it happen. When peoples' attitudes change, positive things happen.

I will now allow the Executive Director of the Cumberland Empowerment Zone to give exact details and figures of the program and its successes. Hopefully, after hearing his and the other testimony, you will understand how important this program is to our community. Please continue to keep the American dream going by giving people a chance to own their own businesses and to become self-sufficient.
You are doing that right now with the Empowerment Zone.
Thank you.

DRAFT STATEMENT
JERRY VELAZQUEZ, III
COMMITTEE ON FINANCIAL SUBC.
HOUSING AND COMMUNITY DEVELOPMENT
WEDNESDAY, APRIL 10, 2002, 2:00PM

I would fist like to thank the Subcommittee for the opportunity to speak on behalf of the Cumberland County Empowerment Zone. I have attached a detailed summary emphasizing our partnerships, collaborations and accomplishments over the past two years of operation.

Rather than review our accomplishments and history, I would like to take this time to provide clarification on specific issues that have been highlighted over the past several months.

- **Empowerment Zone Impact upon our community:**

Since its creation in January 2000, the Cumberland Empowerment Zone Corporation has leveraged its initial support, partnerships, collaborations and strategy to create over $127,000,000 in public/private development in our community. The total number of jobs is currently over 300 and will rise to over 1,400 over the next 18 months. Over 100 homes have been purchased, renovated and/or built in the zone and more than 60 different programs have been funded.

More important than the statistics and accolades highlighted in this document, is the transformation of the way business is conducted in Cumberland County. Inherent to the Empowerment Zone Strategy is the understanding that success, collaboration and innovation, the entrepreneurial spirit if you will, are the keys to ensuring the long-term viability of our targeted communities and our regions. Our community has a renewed sense of pride and willingness to succeed that was initiated by the development of our comprehensive and participatory strategic planning effort.

During a recent business forum in our county, a survey was released highlighting the major reasons businesses are locating or remaining in our community. I am happy to report that the empowerment zone program was listed as one of the top 6 reasons why businesses choose to remain or locate into our county.

Overall, 12 of the 15 Round II zones report that they have leveraged in excess of $1,567,722,427.

- **Lack of full funding:**

I am happy to note that in spite of the lack of full funding the Cumberland Empowerment Zone has been able to achieve limited success. Unfortunately, the major impact of the lack of full funding will not be evident over the next several years. This is because many of the initiatives that have begun in our communities are now in the planning stages. That is to say that no successful project can be completed without proper planning and implementation. A program or project can only be deemed successful if it is able to revitalize and act as a catalyst for change over a long period of time. We must recognize that our communities have not deteriorated over a one, two or three-year period and cannot be transformed by quick fix, short-term initiatives. Initiatives that will be viable and sustainable into the future require comprehensive planning, implementation, revision and re-implementation if they are to be successful.

We do not anticipate that a business plan is the end all be all for any good business. In fact, we recognize that businesses that are able to adjust to meet the needs of its customers are the ones who will be successful and viable long into the future. The beauty of the empowerment zone program is that if fully funded it provides the opportunity and the resources to make these adjustments to meet the needs of its customers over the long haul. Proper planning, partnership, collaboration and coordination are the driving force behind the strategic plans that have been developed by empowerment zones throughout the country.

- **H.R. 2637**

H.R. 2637 provides a great opportunity to encourage economic development throughout the zone. Two major points that I would like to focus on are the ability to utilize empowerment zone funding as leverage and of course the establishment of a formal funding authorization mechanism for the zones and enterprise communities. As highlighted above, the ability to clearly determine what the funding parameters will be are essential to proper planning and implementation. In order for our strategic plans, business plans if you will; to be successful is to know what our resources will be.

The ability to utilize empowerment zone funding to leverage additional resources will provide a means of enhancing and supporting empowerment zone initiatives with other non-empowerment zone funds. The ability to leverage these funds as a match to receive additional funding creates access for many community based organizations that are now unable to apply for federal funding. It is important to note that the ability to utilize empowerment zone funds as a match will not create a preference to local organizations, but will provide the mechanism for access that is recognized as essential to new business development.

The matching ability will also serve to enhance the philosophy that empowerment zone funding was never meant to be the only answer, but the catalyst to leveraging additional resources and partners. It also perpetuates local control and program design and provides no additional impact to the federal budget. It simply provides another tool that will support and possibly compensate for the lack of full, up-front Round II funding.

- **Retention and attraction of new businesses**

The flexibility and the fact that empowerment zone funding can be tailored to the needs of our business community is the most effective mechanism for the retention and attraction of businesses in the zone. Funding can be utilized for pre-development, construction, acquisition, purchase of equipment, employee training, local incentives, leverage of additional resources, planning or a multitude of specific needs that each business owner may encounter. Once again, the empowerment zone funding does not provide 100% of the funding, but is the catalyst for leveraging and accessing additional capital and resources for individual business requirements. The ability to meet the needs of our customers is our biggest asset to accomplishing our strategy.

- **Obligation of Funds:**

The Cumberland Empowerment Zone has obligated or committed 100% of its present allocation of funding for specific projects within the zone. We are presently in the process of expending the funds that have been obligated. To date, over $6,000,000 has been drawn from the treasury with another $1,000,000 to be drawn within the next 30 days. Overall, 12 of the 15 Round II zones have reported that they have obligated or committed over 82% of their available funds.

On the surface it may seem that we are having problems with spending, but in fact the difference between funds obligated and funds disbursed are a direct result of careful planning and monitoring. The Cumberland Empowerment Zone follows specific financial guidelines and does not disburse empowerment zone funding until and unless a project has reached designated milestones. In the case of construction projects, funds are not disbursed until construction is completed on the portion of the project funded by empowerment zone funding. When programs are approved, funds are not disbursed until certain milestones are satisfied.

In several cases, disbursements are awaiting final environmental clearance from HUD. Depending on the use of empowerment zone funding, this process takes between 3 weeks and sometimes several months to obtain HUD's approval. We anticipate that all obligated funds will be drawn and expended within the next 18 months.

It is important to point out that although the program has been described as a 5-year program, the actual funding of the Zones began in June of 1999 with a $3,000,000 appropriation and ended with an allocation of $3,000,000 in November 2001 that is still awaiting final approval and distribution. In essence our 5-year program that has been described as beginning in 1997 has only been funded since June of 1999.

- **Tax incentives versus grants:**

Tax incentives are very important tools for attracting and retaining businesses in our empowerment zone. However, incentives on their own are not enough. Direct empowerment zone funding and access to capital are the primary reasons for investment in our targeted communities. The ability to provide predevelopment, acquisition and other project related funding is essential to businesses wishing to locate in our communities.

Our community presently has a state Urban Enterprise Zone. This zone provides tax incentives and direct financing to businesses wishing to locate or expand within its targeted area. Each of our empowerment zone communities provides the same tax incentives through this designation, but one has more direct lending capacity than the others. Each is successful; however the community that is able to provide the direct resources is attracting more than 75% of the businesses that are locating into our community. The zone has been able to assist the other communities with its ability to leverage its resources, but it is clear that businesses are seeking access to capital when making decisions to move into distressed communities.

As the empowerment zone's strategies are implemented and given the opportunity to effectuate positive change in our communities, the ability to attract businesses based upon the incentives that can be provided will dramatically increase.

I strongly believe that the empowerment zone program is the best revitalization program ever developed. The basis of the program is the fundamental premise that a program should be created with basic business principles in mind. The development of a Strengths, weaknesses, opportunities and threats analysis coupled with a business strategy or strategic plan and the infusion of resources along with the flexibility to adjust to your customer base are integral to the viability of any business or successful initiative.

Once again, I would like to thank you for your time and consideration.

Cumberland County Empowerment Zone

A collaborative revitalization strategy between the communities of Bridgeton, Millville, Vineland and Port Norris.

Cumberland County is similar to many communities in America that have been unable to keep pace with economic and social changes. As the nation became more suburban and more dependent on the automobile, urban communities such as Bridgeton, Millville and Vineland were no longer shopping retail and employment destinations. Shifts in manufacturing, both regionally and nationally, left a labor force traditionally tied to glass, food processing and textiles struggling to retrain and redefine itself.

Despite these problems, Cumberland County and its communities have maintained a strong sense of identity. Their heritage, diversity and character foster the strengths that are important assets to the successful implementation of our Empowerment Zone.

The Cumberland County Empowerment Zone contains a number of very unique strengths and characteristics.

Regional Perspective
The strategy addresses a number of issues and problems from a regional perspective. Solutions to enhance transportation, provide sustainable economic growth and address many of the social deficiencies of the area are linked to intermunicipal cooperation and regional solutions.

Intermunicipal Involvement
The Zone strategy includes the cooperation of municipal, County and State government. It joins the goals and objectives of four municipalities; Bridgeton, Millville, Vineland and Port Norris in a common effort to revitalize these communities.

Unique Blend of Strengths and Assets
The EZ strategy combines a number of unique assets. A regional airport is slated for new growth and expansion. There are connections to tourism development and a nationally recognized Wild and Scenic waterway. Urban redevelopment of downtowns, old industrial sites and historic neighborhoods are all included in the Zone's strategy. All of these assets point to the type of growth and development that will allow for the long-term viability and sustainability of the region.

A Strong Participatory Planning Process

One of the key aspects of the Empowerment Zone process was its mandate for participatory planning. Many of the plans and programs recently developed by the County have involved considerable stakeholder input. The community outreach effort for this Empowerment Zone strategy was particularly outstanding. In order to create a meaningful and viable strategy a number of public workshops were held. These meetings and workshops formed the foundation for the Empowerment Zone's Strategic Plan. The plan was developed cooperatively with citizens, non-profit and for-profit organizations, financial institutions and business leaders.

The Strategic Plan highlights the collective vision and assets of the region. The collaboration necessary to develop the plan was the catalyst for eliminating previous practices where parochial interests too often overshadowed the needs of the region at large. More than 100 businesses were contacted through Chamber of Commerce meetings and special business meetings. The school districts, community college and technical education center were also involved in the formation of the plan. From these efforts, a number of economic and community development priorities were identified:

- **Create New Jobs and Expand Economic Opportunity**

This objective was identified as the top priority. In addition, job retention and labor force preparation were also identified as key economic development issues. In separate outreach meetings with the business community workforce readiness, including basic skills training were identified as a high priority.

- **Enhance the County's Transportation System**

This priority was the most significant social need identified through the surveys and workshops. It was also echoed as a key component of economic revitalization.

- **Reduce Welfare Dependency through Jobs**

This objective was also identified as a top socioeconomic priority in the community survey. This objective was reinforced by comments from the business community that basic skills education and other job readiness training were critical in advancing the level of the local workforce.

- **Neighborhood Revitalization, Childcare and Other Socioeconomic Needs**

Housing and community development were seen as the foundation for neighborhood revitalization. There were a number of other priorities identified. These included providing opportunities for youth including more organized recreation, greater investments in affordable childcare, reducing substance abuse, stronger partnerships in education and training and a stronger family structure.

- **New Industrial Development in Zone Target Areas**

The development of a revolving loan fund, utilization of $130 million in tax-exempt bond financing and special employment credits to EZ businesses will be used to promote development and redevelopment projects in Bridgeton and Vineland as well as the "developable sites" in Vineland, Millville and Port Norris.

Administration and Approval Process

The Cumberland Empowerment Zone Corporation (CEZC), a private 501©3 entity, was created to implement the Empowerment Zone strategy. The CEZC operates with a 21 member Board of Directors and a 65 member Advisory Board. Membership provides for participation from all sectors and communities included in the EZ. The members of these boards are elected to staggered three year terms that provide a mechanism to re-elect 33% of the governing body annually. This process ensures that the board is representative of the target communities that are represented in the Zone.

The Advisory Board is divided into four different committees, the Implementation, Finance, Stakeholders and Communications committee. Each committee meets on a monthly basis to review funding applications and make recommendations to the Board of Directors. Applications are accepted on a monthly basis and are first evaluated by staff for consistency with the strategic plan, HUD's economic development criteria, feasibility, sustainability and benefit to the targeted neighborhoods.

The CEZC has 5 staff members. The staff oversees the implementation of the Zone, ensures that projects are consistent with EZ strategic plan objectives and develops strategies that provide sustainability and the opportunity to create second generation financing that will be recycled back into the zone upon repayment.

Summary of Key Initiatives and Accomplishments over the past two years:

Time and time again, the CEZC has been recognized as one of the premier Empowerment Zones in the nation. Some examples of the initiatives and projects presently being implemented by the Cumberland County Empowerment Zone include:

- Over 1,100 jobs will be created or maintained in the Cumberland County Empowerment Zone over the next 18 months. An additional 300 have already been created.
- Developed a $4 million loan pool that will be reinvested back into the EZ targeted communities
- National recipient of the prestigious IEDC Economic Development Program Award

- Funded over 60 initiatives through the EZ program
- Over 100 housing units have been renovated, rehabilitated, constructed or purchased in EZ neighborhoods
- Partner in the creation of the Neighborhood Leadership Institute
- Created $300,000 in tax savings to local EZ businesses
- NJ Academy of Aviation Science
- Regional Transportation center linking residents to job opportunities and public transportation

Leveraging:

The Cumberland Empowerment Zone's direct involvement in the implementation of over 60 initiatives has utilized $11,627,563 in Round II Empowerment Zone funding. These projects are estimated to leverage a total of $123,948,631 dollars in private, public and Tax Exempt Bond financing.

The Empowerment Zone Strategy:

- Creates a comprehensive strategy that focuses on the economic revitalization of our distressed urban areas
- Mandates a collaborative strategy and partnership among local, state and federal governments to implement this comprehensive strategy
- Requires the participation of local citizens, businesses, financial and educational institutions and the non-profit sector in the development and implementation of the revitalization strategy
- Leverages significant Private sector investment in distressed communities throughout the nation
- Provides significant tax benefits to businesses (large and small) for investing in the human development of our distressed communities
- Provides a mechanism for evaluating and enhancing existing programs that presently exist in our communities
- Instills entrepreneurial strategies throughout all sectors of our community by mandating public/private partnerships and the requirement to enhance and/or create, but not supplant existing funding resources.

The Cumberland County Empowerment Zone is one of the largest revitalization strategies of its kind undertaken in recent years.

The fact that it represents a cooperative effort of County, state, federal and municipal government, that the three cities are full partners in the application, and that the creative partnerships were developed between the public and private sectors exemplifies and highlights the uniqueness and more importantly, the opportunity to meaningful and significant change throughout the Cumberland County region.

No community or organization will be able to solve all of its problems as a result of the implementation of the plan. The Empowerment Zone designation is not a panacea. However, it does provide the mechanism and long-term strategy to overcome many of the social and economic challenges that presently exist in our communities. The vision and strategy outlined in the Zone's comprehensive plan provide the blueprint for the future and the guide for attaining self sustaining residents, businesses, communities and the region as a whole.

The future success, viability and sustainability of our strategy and more importantly, our communities hinge on our ability to continue to attract and leverage private investment. Our partners have time and time again expressed great concern with the lack of long-term funding to facilitate the implementation of our long-term strategy. Support has dwindled as a result of our inability to obtain multi-year commitment to fund the Empowerment Zone strategy.

It is imperative that the existing Round II Empowerment Zones receive multi-year funding. The receipt of this commitment will serve to eliminate the focus from the short-term, quick fix programmatic approach to the long-term strategy that will effectuate change and provide the blueprint for ongoing self-sustainability within our communities.

The beauty of the Empowerment Zone Strategy is the understanding that success, collaboration and innovation, the entrepreneurial spirit if you will, are the keys to ensuring the long-term viability of our targeted communities and our regions.

The Empowerment Zone strategy will be remembered as the Catalyst for effectuating true and meaningful change within our economy, our vision, our implementation strategies, our delivery systems and most importantly our ability to revitalize and reinvest in our region.

If we are given the opportunity to implement these insightful and participatory strategies we will instill the mechanism for change, collaboration, opportunity and investment long, long after the Empowerment Zone designation ceases to exist.

April 10, 2002
House Committee on Financial Services
2:00p Hearing
"Empowerment Zones and Renewal Communities"
Congressman Amo Houghton
Congressman Jack Quinn
Congressman Thomas Reynolds

Joint Statement in Support of HR 3100

Mr. Chairman, thank you for allowing us to take the time to talk to your committee and offer our strongest support for HR. 3100, a bill to amend the current law governing Empowerment Zones and Renewal Communities. This legislation is sponsored by Congressman LaFalce, the ranking member of this committee, and co-sponsored by all three of us. The current law, which took effect on January 1, 2002, neglected to recognize that the data used to draw the boundaries of these qualifying zones based upon data collected through the Census of 1990. Since 1990, great changes have occurred in each of the 40 targeted regions but more specifically in Western New York. The boundaries outlined based on 1990 data would not fully address the economic problems in Buffalo and Niagara Falls and therefore, the goal of the law would not be fully realized. Our bill calls for changes in the current law to take advantage of the more recent data collected in the 2000 Census.

Empowerment Zones and Renewal Communities have the potential of revitalizing communities troubled by economic difficulties by offering tax breaks for companies investing in these targeted areas. The Western New York region has been troubled by the loss of industry. This program, if implemented with the more recent data and combined with the efforts of the State of New York and the City of Buffalo, will aid in the return of businesses, create jobs and bring prosperity to an area desperately in need of revitalization.

The tax benefits under the Renewal Community are the catalyst needed to bring jobs, investment and business back these areas and this can only be done appropriately if the 2000 census data is used.

Thank you

Amo Houghton
Member of Congress

Jack Quinn
Member of Congress

Thomas Reynolds
Member of Congress

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The Columbus Compact Corporation is the governing body of the Columbus Empowerment Zone.

The Compact provides leadership and supports sustainable improvements to the quality of life in Columbus' central city neighborhoods.

The Compact further empowers people and organizations by linking resources in a collaborative process that ensures active representation for everyone.

WRITTEN TESTIMONY
SUBMITTED TO THE
FINANCIAL SERVICES COMMITTEE
OF THE
U.S. HOUSE OF REPRESENTATIVES

TESTIMONY SUBMITTED BY:

Jonathan C. Beard
President and CEO
Columbus Compact Corporation

April 8, 2002

The Honorable Michael G. Oxley
Chairman, Financial Services Committee
2129 Rayburn House Office Building
U.S. House of Representatives
Washington, DC 20515

Chairman Oxley and members of the Committee:

The following testimony is submitted for the record, in reference to the April 10, 2002 hearing titled *Review of the current status of Empowerment Zones and Renewal Communities.*

The Columbus Compact Corporation governs and administers the Columbus Empowerment Zone, as designated by the U.S. Department of Housing and Urban Development on January 1, 1999 ("Round 2"). As President and CEO of the Columbus Compact Corporation ("the Compact"), I have led our local Empowerment Zone effort from the application process to the present. I submit this testimony on behalf of the Board of Trustees and the many stakeholders in the Columbus Empowerment Zone.

As you know, Columbus received the Urban Empowerment Zone designation as a result of our submission of a comprehensive 10-year strategic redevelopment plan that was evaluated as one of the nation's best, after undergoing a rigorous federal application and screening process.

Our ten-year strategic redevelopment plan envisioned a financial partnership with the federal government. Per the Taxpayer Reform Act of 1997, the federal government committed $10 million per year, for each of ten years, to communities receiving the Round 2 Urban Empowerment Zone designation. In turn, this community committed to focusing $1.5 billion in private and other public spending in the designated area.

To date, while the local community has kept its end of the deal, the federal government has not. Federal appropriations have averaged just 30% of the funds anticipated in the Empowerment Zone strategic plan, funding has been inconsistent and has fluctuated widely, and grant agreements have lagged the appropriations legislation by many months. Despite these frustrating factors that have hampered full implementation of our plan, I am proud to report on some of our initial successes.

- While we anticipated creating 700 new jobs over the ten-year period, to date we have created 341 new jobs in the zone over a three-year period.

- We have attracted 866 existing jobs to the zone, increasing private investment in real estate and fueling business growth and a stronger central city business economy.
- We have trained 118 residents in construction trades skills, surpassing the original ten-year objective of 100.
- We have rehabilitated 46 houses, out of a projected 150 for the ten-year period.
- We have a major new investment strategy planned for 1,400 units of scattered-site, project based Section 8 (7% of the housing stock in the zone).
- We have leveraged over $215 million of additional investment in the zone.

In short, we have made a substantial impact in a very short time.

Now, unfortunately, President Bush's FFY 2003 budget proposal seeks to eliminate funding for Round 2 Empowerment Zones. We believe this budget proposal is ill-advised, and we believe the Administration's stated rationale for the cut is highly inaccurate. We would like to correct the facts currently before the House of Representatives, and we strongly encourage the U.S. Congress to restore funding to the Round 2 Empowerment Zone program.

Secretary Martinez, in his testimony before Congress, highlighted two purported reasons the Administration proposed to eliminate Empowerment Zone funding. First, he stated that the zones are slow in drawing down funds from the federal treasury; thus, he inferred that there were plenty of dollars available for future zone spending. Second, he stated that the federal Empowerment Zone tax incentive package was sufficient to promote community revitalization. We strongly disagree with the Secretary's testimony.

The issue the Secretary raises about draws from the federal treasury is curious. First, Columbus, like every other EZ, received the designation based on its thoughtful use of federal dollars over a ten-year strategic timeframe. Our local priority has been to conserve the scarce federal dollars wherever possible, and to use it to attract more local, private investment. This leveraging strategy envisions a prudent use of the taxpayers' dollar, to create sustainable, market-based activity. The Secretary's stated position, however, would create a perverse incentive whereby local communities would be better served by displacing local dollars with the federal dollars. Instead, we have practiced policies of prudence; we continually seek to use the federal grant commitment to attract and leverage private sector investment. We believe our position and management strategy is a better policy, a better use of taxpayers' dollars, and exactly consistent with the original objectives of the Empowerment Zone program.

Second, federal cash handling regulations wisely prohibit grantees from drawing down dollars until just before the dollars are needed (the "three day rule"). Thus, while we enter into contracts locally, we do not draw the dollars until they are spent. This always will create a situation where we will always have more dollars we are legally obligated to spend, than are recognized in the draw down number the Secretary quotes. Thus the draw down number is so widely inaccurate a gauge -- as to not reflect a reality that has much meaning – that it should never be used as a measure of program activity.

Third, while the U.S. Congress has appropriated $22 million for each Round Two Urban Empowerment Zone over the past four appropriations cycles, HUD has been consistently slow in turning around grant agreements that allow us to access those appropriated dollars. For instance, the grant agreement for the $7.3 million Congress appropriated in November 2000, was not fully executed by HUD until late July 2001. To date, we have yet to receive the (unsigned) grant agreement for last year's $3 million Congressional appropriation (six months after the appropriation). In fact, only $6.67 million of the $22 million appropriated by Congress to date has been available to local communities for more than one year. We are committed to encumbering and spending the dollars wisely and timely, but we cannot do that until HUD releases the grant agreements.

The last point I wish to make on the issue of draws from the federal treasury, is the difficulty in managing and planning for a program with an annual appropriation that has varied dramatically. To date, there have been five separate appropriations over four fiscal years: $3 million, $3.67 million, $5 million and $7.3 million in one fiscal year, and $3 million. The work we do requires good planning, a fair degree of lead-time, and accurate projections of cashflow. The first two years of the program each carried a federal appropriation of under $4 million, and we prioritized our initiatives based on the availability of those dollars. The third year carried a $12.3 million appropriation (and the President's budget request for $10 million funding), which allowed us to pick up some plans that had previously been shelved. The fourth year appropriation was $3 million, which again requires a scaling back of our plans. We are pleased to have federal participation at any level, but long-term consistency would be a wonderful benefit to our local efforts to administer the program efficiently and effectively.

The second major allegation the Secretary makes is that tax incentives alone are sufficient to revitalize the zones. This is, unfortunately, not true. It has neither intuitive, nor is it a position grounded in fact. Interestingly enough, HUD's webpage has a link to a study of the Round One Empowerment Zones (those receiving a 1994 designation). This study, by the noted economic development consulting firm Abt Associates, concludes that the federal tax incentives offer marginal benefits, at best. As lead program administrator, and overseeing a significant tax incentives marketing effort, I can say from direct experience that we would concur with the findings of Abt Associates.

In fact, it is the federal grants that have been remarkably effective in spurring local, private investment. Let me give you three short examples of how the federal Empowerment Zone grant dollars are absolutely critical to new private sector investment in Empowerment Zone housing, commercial investment, and business development projects. The following three examples were selected to illustrate the variety of benefits of the federal EZ grant funding. Those benefits include new housing construction, commercial building investment and rehabilitation, and job creation and retention through business lending. Without the match between the federal Empowerment Zone funding and local Empowerment Zone program expertise, none of these projects would have moved from concept to reality.

1. **18th Street Energy Efficient Housing Project:** Neighborhood House, Inc. is planning a ground-breaking ceremony for April 2002, for the first of seven energy-efficient, new-build market-rate housing units for homeownership on the Near East Side. Empowerment Zone funds will be used over the next two years to guarantee construction financing provided by National City Bank. This guarantee – EZ funds on deposit – manages National City's lending risk for a new product in an untested market. The relatively small amount of EZ funds ($100,000) leverages $945,000 in private investment in the zone. Just as importantly, the nature of the guarantee is designed to recover and recycle all EZ funds, reflecting two important objectives of the EZ program's local administration: conservation of scarce federal EZ resources and maximization of private sector investment.

2. **Milo Arts Facility:** Milo Arts is investing $1.1 million to rehabilitate and bring to code an artists' residential and workshop colony housed in a beautiful, but dilapidated, 19th century era school building. $250,000 in Empowerment Zone funding is being used to refinance existing debt on the building. The new EZ debt replaces first-mortgage debt, and the new EZ debt will be subordinated to $700,000 in new private lending that will be a part of this simultaneous loan closing. (The owner is also investing $150,000 cash into the project.) Again, EZ dollars -- through their subordinated position -- are reducing risk to the commercial bank lender, thereby allowing private sector investment in a project which otherwise would not meet commercial underwriting standards. Again, all EZ dollars will be recycled back to the EZ program as they are repaid over the next seven years.

3. **EZ Seed Capital Fund:** This business loan fund administered by Community Capital Development Corporation ("CCDC", formerly Columbus Countywide Development Corporation), provides the first true venture capital fund for small businesses in Central Ohio. The impact of this fund is illustrated through an investment in ***Middleton Printing, Inc.*** The Seed Capital Fund invested $25,000 to assist in acquisition (and working capital) of a business whose owner had entered a nursing home, and which would have closed without new ownership. The fund invested $25,000 into a new ownership structure, with repayment to begin one year after the investment. By making this seed capital investment (the deferred repayment created a Long-Term Liability rather than a Short-Term Liability on the corporation's Balance Sheet, improving commercial underwriting prospects), CCDC was able to package a $423,000 participation loan; where $168,000 of the total loan package was SBA-504 program-backed debt, $230,000 was unsecured private commercial debt, and the EZ's $25,000 seed capital investment (plus the new owners' $45,000 equity investment) created the 10% minimum equity investment that allowed the private debt to be secured. Through this financing package, the ailing former owner's business survived under new ownership: 22 existing jobs were retained, and 22 new jobs will be created over the next two years in the Columbus Empowerment Zone.

Finally, I'd like to share briefly with you the productivity of the Columbus Empowerment Zone. We have more than seventy projects under contract, funded in part with federal grant dollars. In addition, there are literally dozens of other initiatives spawned by the Empowerment Zone program, which are funded or financed locally. Of the $19 million currently available to the zone, $8.6 million is currently under contract and $7.7 million has been committed through an act of the Board of Trustees and is currently in the contracting process (including $1.4 million in projects still awaiting a HUD Environmental Review). All told, 86% of the dollars available to the Columbus Empowerment Zone have been formally obligated. *This high obligation rate comes despite the fact that the vast majority of federal dollars have been available to the zone for less than one year.*

We are proud of our accomplishments, and proud of our partnership with the federal government. We believe we run an exemplary program that meets the legislative intent. We understand the pressures on the federal budget, and believe we are a wise investment for this great nation. We believe as the Congress comes to understand the facts of the program, Congress will continue to see the Empowerment Zone program as a national priority. We encourage the U.S. Congress to restore funding for the Round 2 Empowerment Zone program.

Jonathan C. Beard
President and CEO