TAX INCENTIVES FOR RENEWAL

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

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TAX INCENTIVES FOR RENEWAL

TUESDAY, MAY 21, 2002

House of Representatives,
Committee on Ways and Means,
Subcommittee on Oversight,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:37 p.m., in room 1100 Longworth House Office Building, Hon. Amo Houghton (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE
May 14, 2002
No. OV–13

CONTACT: (202) 225–7601

Houghton Announces Hearing on Tax Incentives for Renewal Communities

Congressman Amo Houghton (R–NY), Chairman, Subcommittee on Oversight of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the tax relief incentives of Renewal Communities. **The hearing will take place on Tuesday, May 21, 2002, in 1100 Longworth House Office Building, beginning at 2:00 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

Renewal Communities represent a major new economic development initiative designed to attract businesses and investment to distressed urban and rural areas across the Nation. The concept was originally proposed in "The Community Renewal Act of 1996" and became law in December 2000 (P.L. 106–554). In January 2002, 40 competitively selected communities—28 urban and 12 rural—received Renewal Community designations accompanied by incentives to encourage business investment and the creation of jobs in these areas.

In order to assist Renewal Communities, as well as the Nation's 40 Empowerment Zones who also received new incentives as a result of this legislation, the U.S. Department of Housing and Urban Development is hosting a Community Renewal Implementation Conference in Washington, D.C., from May 19 to 23, 2002. The purpose of the conference is to equip community leaders with the necessary tools to attract businesses and investment to their communities, and successfully achieve revitalization. As Renewal Communities begin this process, Congress will review this program through the objectives of these communities.

In announcing the hearing, Chairman Houghton stated: "These Renewal Communities are important. In a word, they help. They help distressed urban and rural areas achieve real renewal. So as we revitalize these communities, it creates an environment where individuals can lift themselves and their families to a new level of security."

FOCUS OF THE HEARING:

The hearing will focus on how the newly designated Renewal Communities plan to use available incentives to attract business investment to their communities, and highlight potentially useful models from Empowerment Zone activities.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Due to the change in House mail policy, any person or organization wishing to submit a written statement for the printed record of the hearing should send it electronically to *hearingclerks.waysandmeans@mail.house.gov*, along with a fax copy to (202) 225–2610, by the close of business, Tuesday, June 4, 2002. Those filing written statements who wish to have their statements distributed to the press and interested public at the hearing should deliver their 200 copies to the Subcommittee on Oversight in room 1136 Longworth House Office Building, in an open and searchable package 48 hours before the hearing. The U.S. Capitol Police will refuse sealed-packaged deliveries to all House Office Buildings.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. Due to the change in House mail policy, all statements and any accompanying exhibits for printing must be submitted electronically to *hearingclerks.waysandmeans@mail.house.gov*, along with a fax copy to (202) 225–2610, in Word Perfect or MS Word format and MUST NOT exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Any statements must include a list of all clients, persons, or organizations on whose behalf the witness appears. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at http://waysandmeans.house.gov.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call (202) 225–1721 or (202) 226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman HOUGHTON. Good afternoon, ladies and gentlemen. Mr. Watts and Mr. Davis, we are delighted to have you here. The hearing will commence. I would like to make a few comments, and then I will turn the mike over to my associate, Mr. Coyne.

We are here today, as most of you know, to talk about a major development initiative for distressed areas, the Renewal Communities. As a bit of background, Congress passed legislation in the year 2000, first spearheaded by these two gentleman in front of us, Representatives J.C. Watts and Danny Davis, to create 40 renewable communities around the Nation. These communities, 28 urban and 12 rural, are eligible for tax incentives to stimulate economic development and job growth.

We are going to be hearing also from the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of the Treasury about these initiatives in the next panel. So, today, is a third day of a HUD conference here in Washington designed to inform Renewal Community leaders about ways to attract business development and capital to their communities. We are going to be hearing from several of these leaders on the third panel. Other Renewal Community leaders are joining us here today are in the audience, and we welcome you particularly. We are delighted to have you here.

I am pleased that a town in our district—I have to be a little provincial here—Jamestown, New York, was selected as one of the rural Renewal Communities. I can't think of a community better suited—will the Jamestown people around here listen to me when I say this—to take advantage of this program than Jamestown. As with many cities in upstate New York, Jamestown has experienced some really rough times in the recent years, and many manufacturers have moved to the South and West and dragging down an already marginal economy.

The greatest asset of our district is its people, and Jamestown is living proof that the State, county, and local governments, and industries and charitable foundations have all pulled together in an exciting way. Just to continue for a minute longer on this, this city is on the brink of an economic revival with, for example, construction of a $12-million skating arena in the heart of the city. Already, independent developers are presenting plans to construct hotels and restaurants in the downtown area. The opportunities offered by the Community Renewal Program will allow this city to develop even more the employment opportunities in it, and I'm sure it is the same way for many of the other communities which you represent out here.

So, the timing of this legislation couldn't be better, and we also couldn't find a better man to lead our efforts than a fellow called Steve Centi. We will talk more about Steve at the start of the third panel, but I want to welcome Steve, as well as Bob Kenyon, Sally Martinez, Kay Sibley from my district that is at this hearing, and welcome and thank you for your contribution. Jamestown is also fortunate to have Mayor Sam Teresi. He served as Director of Development and has done a great job in that area.

So, what I would like to do now is to yield to our Ranking Democrat, Mr. Coyne.

[The opening statement of Chairman Houghton follows:]

Opening Statement of the Hon. Amo Houghton, a Representative in Congress from the State of New York, and Chairman, Subcommittee on Oversight

Good afternoon. Voluntary compliance is the foundation of our tax system, and I can't tell you how troubled I am about recent reports that show an erosion of trust in its fairness. This apparent erosion coincides with a persistent decline in enforcement statistics; the percentage of taxpayers who are audited has declined, and some tax professionals say they can no longer convince clients to fear the IRS. One tax advisor has taken to posting a depiction of heaven and hell on her wall to supply the fortitude that fear of an IRS audit once supplied.

I don't want to add to this problem by failing to observe that the vast majority of taxpayers are indeed honest and comply faithfully and with great integrity, but we need to address the problem. I will ask each of our witnesses today what we can do to turn this situation around.

Our witnesses have specific knowledge or experience with different aspects of IRS operations. In addition to sharing their views on tax compliance, they will focus on the 2002 filing season, the President's budget request, and current developments at the IRS.

Despite the progress the IRS is making in customer service, as highlighted in the Commissioner's testimony, there are still troubling reports that IRS performance is lagging in some areas. For example, taxpayers continue to complain about various aspects of the offer in compromise program, and independent reviewers have expressed concerns about the quality of telephone assistance and walk-in assistance to taxpayers. On the other hand, the IRS appears to be doing better this year to encourage electronic filing.

On Wednesday, the House is scheduled to consider the Taxpayer Protection and IRS Accountability Act of 2002, legislation that I sponsored. Commissioner Rossotti played an important role in advocating the modification we are making to the so-called "Ten Deadly Sins" provision of the 1998 IRS Restructuring Act, and the President, in his budget request, proposed a 15 day extension for electronic filers that we are adopting. I hope that the 15 day extension further accelerates the pace of electronic filing, and that the change to the Ten Deadly Sins improves morale at the IRS while continuing to protect taxpayers from arbitrary and unlawful conduct.

Additionally, I note that the Administration will be submitting to Congress a series of recommendations on individual tax simplification in the next several weeks. I look forward to reviewing those recommendations, and I hope we can act on them in the near future.

During his tenure, Commissioner Rossotti has transformed the IRS from an outdated structure, based on geography, into a modern, customer-focused agency organized around the tax needs of American citizens. He has also laid the groundwork for technological changes that will carry the IRS far into the 21st century. We are just beginning to see the fruits of those innovations today, for example, in the Electronic Funds Transfer Payment System that has greatly simplified the remittance of payroll taxes. I understand your term will expire in November and that you have announced your intention to move back to the private sector. Thank you, Commissioner, for your exemplary public service, and I wish you success in your future endeavors.

I am pleased to yield to our ranking Democrat, Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

The hearing today of the Subcommittee on Oversight will have an opportunity to discuss the tax benefits available to recently designated Renewal Communities. These 40 urban and rural areas will provide for economic development and employment in some of the most depressed of the United States. The Renewal Communities' legislation was signed into law by President Clinton by the end of the year 2000. This legislation also included tax provisions to provide for new markets credit, also to expand Empowerment Zones (EZs), to expand the low-income housing tax credit and private activity tax-exempt bonds and to extend brownfields tax incentives.

The Renewal Communities' tax provisions build on the Empowerment Zone model of economic development that was championed by Representatives Rangel and Watts and former HUD Secretary Kemp, along with Representative Davis. The Community Renewal Act of 1996 was the catalyst for this Committee's discussion of how we might provide tax incentives to attract investment, stimulate job growth, and create affordable housing in our most distressed urban and rural areas.

I want to thank all of the witnesses for attending the Subcommittee's hearing. The testimony of officials from areas recently designated as Renewal Communities will allow us to begin our oversight of the program. I commend our Subcommittee Chairman, Mr. Houghton, for scheduling this very important hearing.

Thank you very much.

[The opening statement of Mr. Coyne follows:]

Opening Statement of the Hon. William J. Coyne, a Representative in Congress from the State of Pennsylvania

At today's hearing the Oversight Subcommittee will have an opportunity to discuss the tax benefits available to recently-designated "Renewal Communities."

These forty urban and rural areas will provide for economic development and employment in some of the most depressed areas in our country.

The "Renewal Communities" legislation was signed into law by President Clinton at the end of 2000. This legislation also included tax provisions to provide for a "new markets" credit, to expand empowerment zones, to expand the low-income housing tax credit and private activity tax-exempt bonds, and to extend brownfields tax incentives.

The "Renewal Communities" tax provisions build on the empowerment zone model of economic development championed by Congressmen Charlie Rangel, Danny Davis, and J.C. Watts, and former HUD Secretary Jack Kemp.

The "Community Renewal Act of 1996" was the catalyst for this Committee's discussion of how we might provide tax incentives to attract investment, stimulate job growth, and create affordable housing in our most distressed urban and rural areas.

I want to thank all the witnesses for attending the Subcommittee's hearing. The testimony of officials from areas recently designated as "Renewal Communities" will allow us to begin our oversight of the program. I commend Subcommittee Chairman Houghton for scheduling this important hearing.

Thank you very much.

Chairman HOUGHTON. Thank you, Mr. Coyne. Would any other Members like to make an opening statement?

Mr. Jefferson, would you?

Mr. JEFFERSON. Thank you, Mr. Chairman.

I think, Mr. Chairman, over the last few years little legislation has been more important to urban communities than what we did with new markets and with the Renewal Communities joining them together. I am hopeful that in the very near future we can see the benefits of that hard work that was started by J.C., Danny, and so many other people and on which I, and other Members of this Committee, had a great hand in seeing through.

They are people from all over the country who have come to Washington to try and find out how to make this legislation work for them and for their communities. There are many here from my own home area, as I am sure there are from yours, and I will acknowledge them a little later when I get a chance to ask a few questions of the panel. So, I just wanted to congratulate all of them who have been successful in getting the applications through, getting their programs approved, and I look forward to working with them as this Subcommittee examines the oversight issues related to the Renewal Communities.

Chairman HOUGHTON. Thank you very much. Mr. Hulshof, have you got any comments?

Mr. HULSHOF. No.

Chairman HOUGHTON. Mr. Pomeroy.

Mr. POMEROY. No.

Chairman HOUGHTON. No comments.

Well, we are pleased to have two of the original sponsors of the legislation that created the Renewal Communities with us today on our first panel.

Suffice it to say that without their work and diligence, we would not be discussing the benefits that Renewal Communities provide. So, it is my pleasure to introduce the Honorable J.C. Watts, Member of the House of Representatives and the Honorable Danny K. Davis, also a Member of the House of Representatives.

J.C., why don't you begin.

STATEMENT OF THE HON. J.C. WATTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. WATTS. Mr. Chairman, thank you very much.

Mr. Coyne mentioned Jack Kemp in his opening remarks, and I cannot help but sing the praises of Jack Kemp. Jack got me involved in this effort in targeting underserved communities when I was in State government back in 1990, and we talked policy and talked about helping underserved communities over the last 10 years. I know that Jack would appreciate the fact that you recognized him this afternoon.

Again, thank you, Mr. Chairman, and other Members of the Subcommittee not only for inviting me to this hearing today, but for your interest in community renewal and offering tax incentives for economic development. I also want to thank my colleague, Congressman Davis, for his leadership, his tireless effort, and continued interest in community renewal. This really has been a bipartisan initiative in the truest sense of the words.

Today's hearing on community renewal coincides with an excellent conference organized by HUD and Secretary Mel Martinez. It is extremely encouraging to see Congress and the Administration working closely toward renewing communities and strengthening our neighborhoods.

Back in 1995, some of us here in Congress had a vision for communities across the country. We saw poverty and hopelessness in some parts of cities, towns, and rural communities—some that were once vibrant and some that never seem to achieve the level of prosperity by many neighborhoods or that many neighborhoods enjoy. Members from both sides of the aisle made the case for new and much-needed tools to build environments of hope to replace communities of despair.

Along with Congressman Jim Talent, Republican of Missouri, and Congressman Floyd Flake, Democrat of New York, I introduced a bill called the Community Renewal Act to foster economic development to distressed urban and rural areas. After Congressman Flake retired, I approached Congressman Davis and asked him to assist me in this effort. He graciously joined and has been the consummate team player and partner since then.

Logic was very simple behind this legislation. When private industry flourishes in communities, it affects people's lives. It creates jobs for residents. It provides services for neighbors. It improves the community by providing opportunity. It was a long road traveled, but my colleagues back then and I communicated the many benefits of community renewal until the concept was signed into law in December 2000 by then-President Clinton.

In January of this year, HUD finished a nomination and selection process, choosing 40 Renewal Communities—28 urban and 12 rural. These cities, towns, and counties were made eligible for a series of economic growth incentives: Capital gains rate reduction for business and Renewal Communities, wage credit for eligible employees, more deductions on capital expenditures, and a commercial revitalization tax deduction to promote commercial development.

Communities are the fabric of our society. They define who we are as a people and who we are as a Nation. The Federal Government should not get involved in the day-to-day management of State and local affairs, but we can give them a helping hand by providing incentives to better their communities. Through the Community Renewal Act, we have done that. Now, with the leadership of HUD, Secretary Martinez and many others, the task at hand is to educate administrators in the heartland about each and every incentive that is public law in order to create jobs in America's poorest communities.

Turning vacant lots into thriving businesses empowers communities. Converting abandoned buildings into affordable housing renews communities. Creating support services and improving education and health care strengthens communities. These goals are attainable. The groundwork has been established. Through public and private partnerships, from the Federal Government to the faith-based community. Lives can be changed and our neighborhoods can be renewed.

I thank the people in this hearing room who have come to Washington to learn how to attract business and capital into their localities. I thank the Subcommittee for allowing me to speak on such an important subject. The difference community renewal will make—will change the lives of not only the citizens of today, but the children of tomorrow.

With that, Mr. Chairman, I thank you very much for this time and thank you very much for conducting this hearing.

[The prepared statement of Mr. Watts follows:]

Statement of the Hon. J.C. Watts, Jr., a Representative in Congress from the State of Oklahoma

Thank you, Mr. Chairman, not only for inviting me to this hearing today, but for your interest in community renewal and offering tax incentives for economic development. I also thank my colleague, Congressman Danny Davis, for his leadership, tireless effort and continued interest in community renewal. This is a bipartisan initiative in the truest sense of the words.

Today's hearing on community renewal coincides with an excellent conference organized by the Department of Housing and Urban Development. It is extremely encouraging to see Congress and the Administration working closely toward renewing communities and strengthening neighborhoods.

Back in 1995, some of us in Congress had a vision for communities across the country. We saw poverty and hopelessness in cities, towns and rural communities—some that were once vibrant, and some that never seemed to achieve the level of prosperity that many neighborhoods enjoy. Members from both sides of the aisle made the case for new and needed tools to build environments of hope to replace communities of despair.

Along with Congressmen Jim Talent of Missouri and Floyd Flake of New York, I introduced a bill called the Community Renewal Act to foster economic development to distressed urban and rural areas. The logic was very simple: when private industry flourishes in communities, it affects people's lives. It creates jobs for residents. It provides services for neighbors. It improves the community by providing opportunity.

It was a long road traveled, but my colleagues back then and I communicated the many benefits of community renewal until the concept was signed into law in December 2000.

In January of this year, HUD finished a nomination and selection process, choosing forty renewal communities—twenty-eight urban and twelve rural. These cities, towns and counties were made eligible for a series of economic growth incentives: capital gains rate reduction for businesses in renewal communities, wage credits for eligible employees, more deductions on capital expenditures and a commercial revitalization tax deduction to promote commercial development.

Communities are the fabric of our society. They define who we are as a people—who we are as a nation.

The Federal Government should not get involved in the day-to-day management of state and local affairs. But we can give them a helping hand by providing incentives to better their communities. Through the Community Renewal Act, we have. Now, with the leadership of HUD Secretary Mel Martinez and many others, the task at hand is to educate administrators in the heartland about each and every incentive that is public law in order to create jobs in America's poorest communities.

Turning vacant lots into thriving businesses empowers communities. Converting abandoned buildings into affordable housing renews communities. Creating support services and improving education and health care strengthens communities.

These goals are attainable. The groundwork has been established.

Through public and private partnerships, from everyone like the government to the faith-based community, lives can be changed and our neighborhoods can be renewed.

Community renewal is a wonderful thing when it works. I thank the people in this hearing room who have come to Washington to learn how to attract business and capital into their localities. And I thank this Subcommittee for allowing me to speak on such an important subject. The difference community renewal will make will change the lives of not only the citizens of today, but the children of tomorrow. With that, Mr. Chairman, I thank you for the time.

Chairman HOUGHTON. Well, thank you, Mr. Watts. Thank you very much for your leadership. As you know, we wouldn't be here if it weren't for you.

Now, Mr. Davis, we are honored to have you here.

STATEMENT OF THE HON. DANNY K. DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. DAVIS. Thank you very much, Mr. Chairman, Representative Houghton, Ranking Member Coyne, and Members of the Subcommittee.

First of all, I want to thank you for having this important hearing, and I am indeed pleased and delighted to appear here with my colleague, Congressman J.C. Watts, who has provided sterling leadership on finding relief for distressed communities. J.C., I commend you for all of your efforts, and it has indeed been a pleasure to work with you.

I am also pleased and would like to acknowledge the presence of Mr. Henry Wilson, who is Chairman of the Englewood Conservation Council in Chicago, an area that has been designated as one of the zones in a Renewal Community.

On February 24, 1999, my colleagues, Representatives J.C. Watts and Jim Talent, and I introduced H.R. 815, the American Community Renewal Act of 1999 in the U.S. House of Representatives. This legislation amends the Internal Revenue Code of 1986 to provide for the designation of Renewal Communities and to encourage local and State governments to reduce taxes and regulatory requirements for companies operating in designated urban and rural renewal areas.

On December 15, 2000, Congress passed the Community Renewal Tax Relief Act of 2000 (CRTR), H.R. 5662, as part of the consolidated Appropriations Act of 2001. President Clinton signed this legislation on December 21, 2000.

Many of our cities are deeply troubled places. At the root of the problem are the massive economic shifts that have marked the last three-and-a-half decades in our cities. Hundreds of thousands of industrial jobs have disappeared or moved away from the central cities and its neighborhoods. However, new jobs that have appeared are different from those that once sustained those areas.

The Renewal Communities Initiative is designed to encourage public-private collaboration to generate economic development in 40 distressed communities. These newly designated Renewal Communities can take advantage of Federal wage credits, tax deductions, capital gains exclusions, and bond financing to stimulate economic development, job growth, and affordable housing in our poorest communities.

This program is very important to our Nation because one of its tax credit components will allow welfare-to-work credits for Renewal Community businesses. This provides a 2-year Federal tax credit of up to $3,500 for the first year and $5,000 for the second year for each newly hired, long-term welfare recipient.

Also, the Renewal Communities Initiative provides businesses work opportunity credits equaling up to $2,400 against their Federal tax liability for each employee hired from these groups with traditionally high unemployment rates. Moreover, this program provides an incentive for wage credits that would help businesses grow and expand their work forces. These initiatives provide a zero capital gains rate for small businesses, low-income housing tax credits to build better rental housing for low-income individuals, and bond financing for public school renovations and programs.

We estimated, Mr. Chairman, that the Renewal Communities Initiative could provide an estimated $17 billion in tax incentives to create jobs for the needy, to promote economic development, and to create affordable housing for the poor. This infusion would help change communities that have remained consistently distressed and disenfranchised for the past 30 years.

Again, I want to thank you and Members of the Subcommittee for the opportunity to be here, and commend, again, my colleague, Congressman J.C. Watts. I thank you so much and yield back the balance of my time.

[The prepared statement of Mr. Davis follows:]

Statement of the Hon. Danny K. Davis, a Representative in Congress from the State of Illinois

Mr. Chairman, Ranking Member, and Members of the Subcommittee, I thank you for having this important hearing. Also, I want to honor the presence of Mr. Henry Wilson, Chairman of the Conservation Council. I am very pleased to appear before this Subcommittee to address the Renewal Communities (RC) Initiative—a landmark measure to help our communities and the people who live in them. On February 24, 1999, my colleagues, Congressmen J.C. Watts and Jim Talent, and I introduced H.R. 815, "The American Community Renewal Act of 1999," in the U.S. House of Representatives. This legislation amends the Internal Revenue Code of 1986 to provide for the designation of renewal communities and to encourage local and state governments to reduce taxes and regulatory requirements for companies operating in designated urban and rural renewal areas. On December 15, 2000, Congress passed the Community Renewal Tax Relief Act of 2000 (H.R. 5662) as part of the Consolidated Appropriations Act of 2001. President Clinton signed this legislation on December 21, 2000.

Many of our cities are deeply troubled places. At the root of the problem are the massive economic shifts that have marked the last three decades in our cities. Hundreds of thousands of industrial jobs have disappeared or moved away from the central city and its neighborhoods. However, new jobs that have appeared are different from those that once sustained our neighborhoods.

The Renewal Communities Initiative is designed to encourage public-private collaboration to generate economic development in 40 distressed communities. These newly designated RCs can take advantage of Federal wage credits, tax deductions, capital gains exclusions and bond financing to stimulate economic development, job growth, and affordable housing in our poorest communities. This program is very important to our Nation because one of its tax credit components will allow welfare-to-work credits for Renewal Community businesses. This provides a two-year Federal tax credit of up to $3,500 for the first year, and $5,000 for the second year, for each newly hired long-term welfare recipient. Also, the Renewal Communities initiative provides businesses work opportunity credits equaling up to $2,400 against their Federal tax liability for each employee hired from groups with traditionally high unemployment rates or other special employment needs. Moreover, this program provides an incentive for wage credits that will help businesses grow and expand their workforces. These initiatives provide a zero capital gains rates for small businesses, low-income housing tax credits to build better rental housing for low-income individuals, and bond financing for public school renovations and programs.

The Renewal Communities Initiative will provide an estimated $17 billion in tax incentives to create jobs for the needy, to promote economic development, and to create affordable housing for the poor. This infusion will help change communities that have remained consistently distressed and disenfranchised for the past 30 years.

I look forward to answering your questions. Thank you!

Chairman HOUGHTON. Thank you, Mr. Davis. I want to thank you again, and also Mr. Watts, for what you have done. The symbolism, the activity, the fact that we have started something that I hope will sweep across the country. So, once again, on behalf of all of us, we really appreciate your being here. Thank you.

Now, I would like to call the second panel, the Honorable Roy Bernardi, Assistant Secretary for Community Planning and Development, the U.S. Department of Housing and Urban Development, and also Eric Solomon, who is the Deputy Assistant Secretary for Regulatory Affairs, U.S. Department of the Treasury.

Mr. Mains, I am sorry I did not introduce you. Mr. Donald Mains is Deputy Assistant Secretary of Economic Development, the U.S. Department of Housing and Urban Development. Thank you very much for being here.

Mr. Bernardi, would you start your testimony.

STATEMENT OF THE HON. ROY BERNARDI, ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; ACCOMPANIED BY DONALD MAINS, DEPUTY ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT

Mr. BERNARDI. Good afternoon, Chairman Houghton, Ranking Member Coyne, distinguished Members of the Subcommittee. My name is Roy Bernardi. I am the Assistant Secretary for Community Planning and Development at the U.S. Department of Housing and Urban Development.

The Department is pleased that this hearing is occurring in conjunction with the Community Renewal Implementation Conference. While we are here, over in the Rayburn Building, there is a tax incentive seminar that is going on. As you can see behind me and in front of you, many of the 400 representatives of the designated communities are here today. They include tax law specialists, executive directors, planning coordinators, city managers, mayors, and residents. They have gathered to learn how Federal tax incentives and community partnerships can encourage economic development in the Empowerment Zones and the Renewal Communities.

The Department's most recent information shows that businesses and EZs have made only a modest use of the Federal tax incentives. This conference is just the beginning of HUD's aggressive and comprehensive campaign to market the existing tax incentives to businesses and individuals in the 30 Empowerment Zones and 40 Renewal Communities that HUD has designated.

The Community Renewal Tax Relief Act of 2000 provided for 12 rural and 28 urban Renewal Communities and set forth 2 rural and 7 urban Round III Empowerment Zones. The new legislation provided for measures that included a $22-billion package of tax incentives, of which $11 billion is unique to the EZ/Renewal Communities.

In the fall 2001, HUD received over 100 Renewal Community applications from 35 States. Our eligibility and completeness review yielded 77 qualified applications. The enthusiasm for this program is evidence that our neighbors from coast-to-coast are anxious to reduce poverty and provide opportunity through tax incentives.

In January, Secretary Martinez was able to announce 40 Renewal Communities with the most severe economic distress, 20 of which were Enterprise Communities that chose to become Renewal Communities. Unlike many grant competitions, Congress mandated that the applications be judged strictly by objective criteria. At a minimum, the applicants needed to have set continuous census tracts with at least 20-percent poverty and 9.4-percent average unemployment. The 40 Renewal Communities selected had an average poverty rate of 40 percent and an average unemployment rate of over 17 percent.

Unlike many Federal programs which provide cash grants for narrowly defined projects, HUD requires Renewal Communities to adhere to four of six required goals to promote economic growth at the local level. Renewal Communities commit to a combination of reducing local taxes, improving local services, reducing crime, reducing local government requirements, involving community partners, and soliciting in-kind donations. In return, the Treasury Department agrees to reduce the Federal tax burden through the Renewal Community Employment Credit, Commercial Revitalization Deduction, Zero Percent Capital Gains Rate, and Increased Section 179 Deduction for Renewal Community businesses.

The tax incentives are the beginning of the strategic alliances that are being formed among the private, public, and nonprofit sectors in our 40 Renewal Communities. Ultimately, the success of Renewal Communities and EZs will stem from grassroots implementation in our respective communities.

Presently, we are aware of the efforts being made by several Renewal Communities and Empowerment Zones to market their tax incentives to potential business partners. In Eastern Kentucky, Renewal Community staff is going door-to-door with tax publications, raising the enthusiasm in the business community. In Memphis, Tennessee, the Mayor has brought together representatives from nonprofit, for-profit, and other levels of government to help target tax incentive outreach strategies. Nissan has expressed interest in the rural Mississippi Renewal Community because of the new tax incentives. A business in Burlington, Vermont, is considering using the Renewal Community tax savings to have more full-time, rather than part-time, employees.

I will defer to other witnesses and let them share with the Subcommittee their accomplishments in detail.

New Empowerment Zones are also enthusiastic about tax incentives. Tucson, Arizona, has launched an Empowerment Zone tax incentive website that has already received over 2,500 hits since the 1st of March. Finally, in my hometown of Syracuse, New York, developers will use the tax-exempt EZ facility bond to help build Destiny USA, a 65-acre lake-front recreation, commercial, and retail center that will include a replica of Erie Canal, rock climbing, hotels, and a monorail link to the airport and the convention center.

In closing, 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 the large corporations that these economically distressed areas represent opportunities with great hope.

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to be here.

[The prepraed statement of Mr. Bernardi follows:]

Chairman HOUGHTON. Thank you, Mr. Bernardi. Mr. Mains, are you going to testify?

Mr. MAINS. No, sir, I am with the Assistant Secretary.

Chairman HOUGHTON. Okay, good.

Mr. Solomon.

STATEMENT OF ERIC SOLOMON, DEPUTY ASSISTANT SECRETARY FOR REGULATORY AFFAIRS, U.S. DEPARTMENT OF THE TREASURY

Mr. SOLOMON. Mr. Chairman, Mr. Coyne, and Members of the Subcommittee, I appreciate the opportunity to discuss with you today tax incentives designed to foster the revitalization of economically disadvantaged communities.

I would like to start by thanking the Chairman and the Subcommittee for holding a hearing on this important issue. With your permission, I would like to submit a full written statement for the record.

Seeing no objection, thank you.

The Administration is firmly committed to helping Americans in economically distressed communities. As there are limits on what the Federal Government alone can accomplish, a more comprehensive approach is necessary. This approach calls for initiatives to encourage further involvement by individuals, businesses, and charitable organizations in working to eliminate conditions of economic distress in our country.

Thanks, in large part, to the leadership shown by the Committee on Ways and Means, many of the Administration's tax proposals in this area have been enacted. The Administration's tax proposals benefiting distressed communities or low-income individuals that have been enacted include the following: Extension of the work opportunity tax credit through 2003; extension of the welfare-to-work credit through 2003; extension of authority to issue qualified zone academy bonds through 2003; authorization of tax-exempt private activity bonds to finance reconstruction in the area around the World Trade Center in New York City; creation of a new 10-percent income tax bracket; and doubling the child tax credit to $1,000.

The President's budget for fiscal year 2003 contains additional proposals to help distressed communities and low-income individuals. The tax proposals include creation of a new single-family housing tax credit, similar in design to the low-income housing tax credit, to expand the possibility of homeownership for low-income families.

The President's budget proposals also include the creation of individual development accounts, increased incentives for charitable giving, and a refundable tax credit for the purchase of health insurance.

The Internal Revenue Code currently includes numerous incentives to encourage the development of economically distressed areas. They include tax incentives for businesses located in Empowerment Zones, Enterprise Communities and Renewal Communities, the new markets tax credit, qualified zone academy bonds, certain categories of tax-exempt bonds, special incentives for investment and employment on Indian reservations, the low-income housing tax credit, the work opportunity tax credit, and the deductibility of brownfields remediation costs. In the brief time that I have, I would like to highlight a few of these tax incentives, particularly those for Renewal Communities.

We wish to commend Congressman Watts for his leadership in the enactment of the Community Renewal Tax Relief Act of 2000. The Act authorized 40 Renewal Communities, 28 in urban areas, and 12 in rural areas. The 40 communities were designated by HUD at the beginning of this year.

Taxpayers may utilize the Renewal Communities tax benefits beginning this year. These benefits include the following: A 15-percent wage credit for qualifying wages, additional expensing for qualified property, a commercial real estate revitalization deduction, and an exclusion for capital gains on qualified community assets held more than 5 years.

The commercial real estate revitalization incentive allows accelerated recovery of costs to build or rehabilitate buildings in Renewal Communities. The capital gains exclusion for qualified community assets held more than 5 years applies to stock or a partnership interest in a Renewal Community business and certain tangible property used in a Renewal Community business.

I would now very briefly like to mention Empowerment Zones, the new markets tax credit, and the New York Liberty Zone.

There are 40 Empowerment Zones in the United States. Tax benefits for qualifying businesses in Empowerment Zones include: A 20-percent wage credit for qualifying wages, additional expensing for qualified property, and tax-exempt financing for certain qualifying zone facilities. In addition, there are capital gains incentives for certain assets.

The new markets tax credit provides a tax credit to investors who make qualified equity investments in privately managed investment vehicles called Community Development Entities (CDEs). The CDEs are required to invest substantially all of the proceeds of the qualified equity investments in low-income communities.

The Treasury Department's Community Development Financial Institutions (CDFI) fund will allocate credit authority among CDEs based on a competitive application process. The CDFI fund expects to issue a notice soon seeking applications from CDEs for credit authority.

Finally, I would like to mention the New York Liberty Zone. While the area around the World Trade Center would not have been described as economically distressed prior to September 11, the destruction there prompted both the Administration and the Congress to support tax incentives to help New York City recover. We commend you, Mr. Chairman, and other Members of the Committee on Ways and Means for your leadership in helping to enact the Job Creation and Worker Assistance Act of 2002.

In conclusion, I would like to thank you, Mr. Chairman, Mr. Coyne, and the Members of the Subcommittee for providing the opportunity today to discuss these important issues. I hope that working together we can ensure that all Americans share in our country's prosperity.

This concludes my prepared testimony. I would be pleased to respond to any questions.

[The prepared statement of Mr. Solomon follows:]

Statement of Eric Solomon, Deputy Assistant Secretary for Regulatory Affairs, U.S. Department of the Treasury

Mr. Chairman, Mr. Coyne, and Members of the Subcommittee:

I appreciate the opportunity to discuss with you today tax incentives designed to foster the revitalization of economically disadvantaged communities. I would like to start by thanking the Chairman and the Subcommittee for holding a hearing on this important issue.

The Administration is firmly committed to helping Americans in economically distressed communities. However, because there are limits on what the Federal Government alone can accomplish, a more comprehensive approach is necessary. This approach calls for initiatives to encourage further involvement by individuals, businesses, and community-based and faith-based organizations in working to eliminate conditions of economic distress in this country.

Thanks in large part to the leadership shown by the Ways and Means Committee, many of the Administration's tax proposals in this area have already been enacted. Administration tax proposals benefiting low-income individuals or distressed communities that have already been enacted include the following: (1) extension of the work opportunity tax credit through 2003; (2) extension of the welfare to work credit through 2003; (3) extension of authority to issue qualified zone academy bonds through 2003; (4) authorization of tax-exempt private activity bonds to finance reconstruction in the area surrounding the World Trade Center in New York City devastated by the September 11, 2001 terrorist attacks; (5) creation of a new 10 percent income tax bracket; and (6) doubling of the child tax credit to $1,000.

The President's Budget for FY 2003 contains additional proposals on both the spending and tax side. The tax proposals include creation of a new tax credit, similar in design to the low-income housing tax credit, for developers of affordable single-family housing, and making the brownfields tax incentive permanent. These will be discussed in more detail below.

We look forward to working with this Subcommittee as it considers the remainder of the Administration's initiatives related to encouraging community renewal.

The remainder of my testimony will provide a more detailed discussion of current law and the Administration's budget proposals.

INCENTIVES FOR DISTRESSED COMMUNITIES

Current Law Tax Incentives for Distressed Communities

The Internal Revenue Code of 1986 currently includes numerous incentives to encourage the development of economically distressed areas. They include tax incentives for businesses located in empowerment zones, enterprise communities and renewal communities, the new markets tax credit, qualified zone academy bonds, certain categories of tax-exempt bonds, special incentives for investment and employment on Indian reservations, the low-income housing tax credit, the work opportunity tax credit, and the deductibility of brownfields remediation costs.

Empowerment Zones

The Omnibus Budget Reconciliation Act of 1993 (OBRA 93) authorized a project under which nine empowerment zones, six in urban areas and three in rural areas, were designated through a competitive application process. State and local governments nominated distressed geographic areas, which were selected on the strength of their strategic plans for economic and social revitalization. The urban areas were designated by the Secretary of the Department of Housing and Urban Development. The rural areas were designated by the Secretary of the Department of Agriculture.

The Taxpayer Relief Act of 1997 added two urban Round I zones and authorized 20 Round II zones (15 urban and five rural). The Community Renewal Tax Relief Act of 2000 authorized nine Round III zones (seven urban and two rural). There are currently 30 urban zones and 10 rural zones. Designation of Round I, Round II or Round III status generally will apply until December 31, 2009.

Qualifying businesses in empowerment zones are eligible for certain tax benefits. These benefits include the following: (1) a 20-percent wage credit for qualifying wages; (2) additional expensing for qualified zone property; and (3) tax-exempt financing for certain qualifying zone facilities. In addition, taxpayers may elect to defer capital gains from certain sales and re-investments in qualified empowerment zone assets. Taxpayers may also exclude certain gain from the sale of qualifying empowerment zone stock that is held for more than five years.

The wage credit provides a 20 percent subsidy on the first $15,000 of annual wages paid to residents of empowerment zones by businesses located in these communities, if substantially all of the employee's services are performed within the zone. By lowering the cost of labor, the wage credit encourages new businesses to locate in zones, and encourages those businesses already there to expand, providing jobs and opportunities for self-sufficiency for zone residents.

Enterprise zone businesses are allowed to expense the cost of certain property up to an additional $35,000 above the amounts generally available under section 179 of the Internal Revenue Code. In addition, only 50 percent of the cost of such property counts toward the aggregate annual limit on section 179 expensing. This incentive is designed to increase investment in machines, computers and other tangible business property within empowerment zones by small businesses.

Enterprise zone businesses are also permitted access to a special class of tax-exempt private activity bonds. Limits are placed on the amount of such financing available to each zone. Rural zones are allowed $60 million of such financing, urban zones with less than 100,000 residents are allowed $130 million of such financing and urban zones with at least 100,000 residents are allowed $230 million of such financing. These bonds are not subject to the State's volume cap on private activity bonds.

The Community Renewal Tax Relief Act of 2000 added two provisions to limit capital gains taxation on certain investments within empowerment zones to encourage greater private investment in the zones. Taxpayers are allowed to roll over the capital gain from the sale of qualified empowerment zone assets held more than one year, if a replacement qualified empowerment zone asset is purchased in the same zone as the asset sold. Qualified empowerment zone assets include certain stock and partnership interests in an enterprise zone business and certain tangible property used in an enterprise zone business. This provision applies to assets acquired after December 21, 2000.

In addition, taxpayers other than corporations are allowed to exclude 60 percent of the gain on the sale or trade of qualified small business stock held more than 5 years, if the business also qualifies as an enterprise zone business. Taxpayers are normally allowed to exclude 50 percent of the gain on the sale of qualified small business stock. This provision applies to stock acquired after December 21, 2000.

Enterprise Communities

In addition to empowerment zones, OBRA 93 provided for the designation of 95 enterprise communities, 65 in urban areas and 30 in rural areas. Qualified businesses in these communities are entitled to the same favorable tax-exempt financing benefits as those in empowerment zones. Many of these enterprise communities have subsequently been re-designated as part of an empowerment zone or a renewal community and are no longer designated as an enterprise community. Currently, 66 enterprise communities qualify for tax-exempt financing, 40 in urban areas and 26 in rural areas. A second round of rural enterprise communities were authorized under the Food and Drug Administration and Related Agencies Appropriations Act, 1999 (Agriculture Appropriations Act 1999), but this second round of rural enterprise communities were not entitled to the tax-exempt financing benefits.

Renewal Communities

The Community Renewal Tax Relief Act of 2000 authorized 40 renewal communities, at least 12 of which must be in rural areas. The renewal communities were chosen through a competitive application process similar to that used for empowerment zones. The 40 communities were designated by the Department of Housing and Urban Development at the beginning of this year and that designation continues through 2009.

Taxpayers may utilize the renewal community tax benefits beginning this year. These benefits include the following: (1) a 15-percent wage credit for qualifying wages; (2) additional section 179 expensing for qualified renewal property; (3) a commercial revitalization deduction; and (4) an exclusion for capital gains on qualified community assets held more than 5 years.

The wage credit and increased section 179 expensing operate in a similar fashion as in empowerment zones. The primary difference is that the wage credit is smaller, equal to 15 percent for the first $10,000 of wages.

The commercial revitalization deduction is designed to foster the development or rehabilitation of commercial real estate in renewal communities. This deduction is applicable to certain nonresidential real property or other property functionally related to nonresidential real property. A taxpayer may elect to either: (1) deduct one-half of any qualified revitalization expenditures that would otherwise be capitalized for any qualified revitalization building in the tax year the building is placed in service, or (2) amortize all such expenditures over a 120-month period beginning with the month the building is placed in service. A qualified revitalization building is any building and its structural components placed in service by the taxpayer in a renewal community. If the building is new, the original use of the building must begin with the taxpayer. If the building is not new, the taxpayer must substantially rehabilitate the building and then place it in service. The total amount of qualified revitalization expenditures for any building cannot be more than the smaller of $10 million or the amount allocated to the building by the commercial revitalization agency for the state in which the building is located. A $12 million dollar cap on allowed commercial revitalization expenditures is placed on each renewal community annually.

In order to help stimulate private investment in renewal communities, qualified capital gain earned on qualified community assets is excluded from gross income. A qualified community asset includes stock or a partnership interest in a qualified renewal community business and certain tangible property used in a renewal community business. To qualify for the capital gain exclusion, the asset must be purchased after December 31, 2001 and before January 1, 2010, and it must be held for at least five years.

District of Columbia Incentives

A special set of incentives was enacted in 1997 to help redevelop the District of Columbia. The Taxpayer Relief Act of 1997 included tax incentives for both residents and businesses to locate in the District of Columbia. A $5,000 income tax credit for first-time home purchasers was designed to attract new homeowners to the District. A second set of incentives, similar to those provided in empowerment zones, was intended to encourage the establishment of new businesses in the District as well as new investment in existing enterprises.

Subject to certain income restrictions, the $5,000 credit is available to first-time purchasers of a principal residence in the District of Columbia who have not owned houses in the District during the year preceding the purchase. Although the credit was initially available for property purchased through the end of 2000, subsequent legislation extended the incentive through the end of 2003.

Other tax incentives offer a range of economic inducements to businesses operating in the more economically disadvantaged parts of the District. With the exception of a provision related to the sale of capital assets, these incentives are available only to businesses located either within the boundaries of the D.C. Enterprise Community, or located in census tracts elsewhere in the District where the poverty rate exceeds 20 percent. These areas are collectively known as the DC Zone. With certain minor adjustments, businesses in the DC Zone may claim the same wage credit, expensing of certain capital investment, and tax exempt bond financing as businesses in an empowerment zone. In addition, as in renewal communities, capital gains realized from the sale of certain assets are excludable from the income of the seller. For the purposes of this provision alone, the DC Zone is expanded to include all census tracts in the District in which the poverty rate exceeds 10 percent.

New York Liberty Zone

While the area around the World Trade Center in New York City would not have been described as an economically distressed community prior to the extraordinary events of September 11, 2001, the horrible destruction of life and property in that area due to the terrorist attacks prompted both the Administration and the Congress to support tax incentives targeted to helping New York City recover economically. I commend you, Mr. Chairman, and other Members of the Ways and Means

Committee for the leadership you exhibited in helping to enact the Job Creation and Worker Assistance Act of 2002.

Some of the tax incentives provided in the New York Liberty Zone are similar to the tax incentives offered in empowerment zones, while others were designed to meet the unique challenges facing New York City in the aftermath of the September 11 terrorist attacks. As in empowerment zones, qualified businesses are allowed a wage credit, increased section 179 expensing, and access to tax-exempt financing. Provisions specific to the New York Liberty Zone include 30 percent expensing of certain property, accelerated depreciation of qualified leasehold improvement property, extension of the replacement period for certain property involuntarily converted, and an additional advance refunding of bonds for facilities located in New York City.

The wage credit is allowed for certain employees who work in New York City through an extension of the work opportunity tax credit (WOTC). The new targeted group for the WOTC includes employees of businesses located in the New York Liberty Zone if substantially all of the employee's services for the business are performed within the New York Liberty Zone. In addition, the new targeted group includes employees of businesses that relocated from the New York Liberty Zone due to the physical destruction or damage of their workplaces by the September 11, 2001 terrorist attacks to another location within New York City, provided that substantially all of the employee's services are performed within New York City. Only businesses with an average of 200 or less employees during the taxable year are eligible for the credit. The credit is effective for wages paid or incurred for work performed during calendar year 2002 or 2003.

An increase in section 179 expensing of $35,000 is allowed for property placed in service by taxpayers after September 10, 2001, and before January 1, 2007, if the original use of the property in the New York Liberty Zone commences with the taxpayer after September 10, 2001 and substantially all of the use of the property is in the New York Liberty Zone. As in empowerment zones and renewal communities, only 50 percent of the value of such property counts toward the aggregate annual limit on section 179 expensing.

The Governor of New York State and the Mayor of New York City are each given an allowance to issue up to $4 billion of tax-exempt private activity bonds before January 1, 2005. The bonds may be used to finance the acquisition, construction, rehabilitation and renovation of nonresidential real property, residential rental real property, and public utility property in the New York Liberty Zone. The Governor and the Mayor may each designate up to $1 billion of such bonds for the acquisition, construction, rehabilitation and renovation of certain commercial real property located outside the New York Liberty Zone and within New York City. These bonds are not subject to the State's volume cap on private activity bonds.

A taxpayer is allowed an additional first-year depreciation deduction equal to 30 percent of the adjusted basis of qualified New York Liberty Zone property. In order to qualify for this partial expensing, the property must be (1) a property with a MACRS recovery period of 20 years or less, (2) computer software other than computer software covered by section 197, (3) water utility property, or (4) certain nonresidential real property and residential rental property. Nonresidential real property and residential rental property is eligible for the partial expensing only to the extent such property rehabilitates real property damaged, or replaces real property destroyed or condemned, as a result of the terrorist attacks of September 11, 2001. This provision applies neither to property that would otherwise qualify for 30 percent expensing under section 168(k), nor to qualified New York Liberty Zone leasehold improvement property. Furthermore, to qualify for the partial expensing, substantially all of the use of the property must be in the New York Liberty Zone and the original use of the property in the New York Liberty Zone must commence with the taxpayer after September 10, 2001 (except for certain leased property). Finally, qualified property must be purchased by the taxpayer after September 10, 2001, and placed in service before January 1, 2007, or for nonresidential property and residential rental property, January 1, 2009.

Qualified New York Liberty Zone leasehold improvement property placed in service after September 10, 2001 and before January 1, 2007 is treated as 5-year property for the purposes of section 168 depreciation rules, with deductions taken using the straight-line method. Under the alternative depreciation system (section 168(g)), such property has a class life of 9 years. Qualified New York Liberty Zone leasehold improvement property is qualified leasehold improvement property as defined in section 168(e)(6) that is placed in service in the New York Liberty Zone.

When property used in a trade or business is damaged or destroyed, the taxpayer may deduct any loss sustained to the extent that the loss is not compensated by insurance or otherwise. When insurance or other compensation results in a gain from the damage or destruction of property, then the taxpayer may elect to reduce the current recognition of gain by purchasing a replacement property within a specific time period which is similar or related in use to the damaged or destroyed property (section 1033(a)). For property in the New York Liberty Zone that was involuntarily converted as a result of the terrorist attacks on September 11, 2001, the replacement period is extended from 2 years to 5 years if substantially all of the use of the replacement property is in New York City.

Finally, certain bonds for facilities located in New York City are given one additional advance refunding. There is an aggregate limit of $9 billion advance refunding bonds that may be issued before January 1, 2005.

New Markets Tax Credit

The new markets tax credit was created by the Community Renewal Tax Relief Act of 2000 to encourage capital investments in businesses that are located in low-income communities. The new markets tax credit provides a tax credit to investors who make "qualified equity investments" in privately-managed investment vehicles called "community development entities," or "CDEs." The CDEs are required to invest substantially all of the proceeds of the qualified equity investments in low-income communities. For example, CDEs may make loans or capital investments in companies that operate in low-income communities.[1]

Eligible investors in a CDE are entitled to claim tax credits over a seven-year period beginning on the date of the initial investment. The value of the credits to investors will be about 30 percent of the amount of the qualified equity investment on a present value basis.

In order for an entity to qualify as a CDE, it must meet three requirements. First, the primary mission of the entity must be to serve or provide investment capital for low-income communities or low-income persons. Second, the entity must maintain accountability to residents of low-income communities through their representation on the entity's governing or advisory board. Third, the entity must be certified as a CDE by the Treasury Department's Community Development Financial Institutions Fund (CDFI Fund).

In order for a CDE to issue qualified equity investments with respect to which new markets tax credits may be claimed, the CDE must apply for and receive from the CDFI Fund an allocation of credit authority for those investments. A total of $15 billion of equity investments will be able to qualify for this authority on a phased-in basis between 2001 and 2007. The CDFI Fund will allocate this authority among CDEs based on a competitive application process. In making these allocations, the CDFI Fund is required to give priority to any entity (1) with a record of having successfully provided capital or technical assistance to disadvantaged businesses or communities, or (2) which intends to invest substantially all of the proceeds of the qualified equity investments in one or more businesses in which persons unrelated to the entity hold the majority equity interest.

The Treasury Department has issued temporary and proposed tax regulations regarding the new markets tax credit and is currently accepting and reviewing comments on the regulations.

Qualified Zone Academy Bonds

State and local governments can issue qualified zone academy bonds (QZABs) to fund the improvement of certain eligible public schools. Instead of receiving interest payments, an eligible holder of a QZAB receives annual Federal income tax credits. These annual credits compensate the holder for lending money and, therefore, are treated like taxable interest payments for Federal tax purposes. Eligible holders are banks, insurance companies, and corporations actively engaged in the business of lending money. The credit rate for a QZAB is set on its day of sale by reference to credit rates established by the Department of the Treasury. The maximum term of a QZAB issued during any month is determined by reference to the adjusted applicable Federal rate (AFR) published by the Internal Revenue Service for the month in which the bond is issued.

This provision was enacted in the Taxpayer Relief Act of 1997, which established authority to issue $400 million of QZABs per year for 1998 and 1999. This authority was extended to 2000 and 2001 by the Ticket to Work and Work Incentives Im-

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[1] For these purposes, "low-income community" is defined as any population census tract if (1) the poverty rate for the tract is at least 20 percent, or (2) the median family income for the tract does not exceed 80 percent of statewide median family income (or, in the case of metropolitan areas, metropolitan area median family income, if greater).

provement Act of 1999. The Administration proposed that this authority be extended through 2003, which was accomplished in the recently enacted Job Creation and Worker Assistance Act of 2002. The annual cap is allocated among the States in proportion to their respective populations of individuals with incomes below the poverty line. Unused authority to issue QZABs may be carried forward for two years (three years for authority arising in 1998 and 1999) after the year for which the authority was established.

A number of requirements must be met for a bond to be treated as a QZAB. First, the bond must be issued pursuant to an allocation of bond authority from the issuer's State educational agency. Second, at least 95 percent of the bond proceeds must be used for an eligible purpose at a qualified zone academy. Eligible purposes include rehabilitating school facilities, acquiring equipment, developing course materials, or training teachers. A qualified zone academy is a public school (or an academic program within a public school) that is designed in cooperation with business and is either (1) located in an empowerment zone or enterprise community, or (2) attended by students at least 35 percent of whom are estimated to be eligible for free or reduced-cost lunches under the Richard B. Russell National School Lunch Act. Third, private entities must have promised to contribute to the qualified zone academy certain property or services with a present value equal to at least 10 percent of the bond proceeds.

Tax-exempt Bonds

States and local governments may issue tax-exempt bonds to revitalize economically disadvantaged communities so long as: (1) no more than ten percent of the bond proceeds is used by private entities in a trade or business if payments or security associated with that use are available to pay principal or interest on the bonds; and (2) no more than five percent of the bond proceeds is loaned to private businesses or individuals. If these private activity requirements are not met, the following types of tax-exempt private activity bonds may nonetheless be issued, subject to per-State volume limits, for revitalization purposes: mortgage revenue bonds ("MRBs"), bonds for qualified residential rental projects, and qualified redevelopment bonds.

MRBs may be issued to finance the purchase, or qualifying rehabilitation or improvement, of single-family, owner-occupied homes located within the jurisdiction of the issuer of the bonds. Interest on MRBs is excluded from gross income if they meet the requirements for "qualified mortgage bonds" or "qualified veterans' mortgage bonds." In addition, in some circumstances, "mortgage credit certificates" may be issued as an alternative to qualified mortgage bonds.

In general, qualified mortgage bonds must finance residences for first-time home buyers; the purchase price of the residence may not exceed certain amounts; and the purchaser must satisfy certain income limitations. In addition, certain special rules apply with respect to "targeted areas." A targeted area is defined as (1) a census tract in which 70 percent or more of the families have incomes that are 80 percent or less of the Statewide median family income, or (2) an area of chronic economic distress designated by the State and approved by the Secretary of the Treasury and the Secretary of Housing and Urban Development.

Exempt facility bonds may be used to fund qualified residential rental projects, if at least 95 percent of the net bond proceeds are used to provide a qualified residential rental project. A qualified residential rental project is a multifamily rental project in which one of the following two requirements is met at all times during the qualified project period: (1) 20 percent or more of the residential units in such project are occupied by individuals whose income is 50 percent or less of area median gross income; or (2) 40 percent or more of the residential units in such project are occupied by individuals whose income is 60 percent or less of area median gross income.

Qualified redevelopment bonds are bonds for which at least 95 percent of the net bond proceeds are used for redevelopment purposes in a locally designated blighted area. The payment of principal and interest must be primarily secured by taxes of general applicability imposed by a general purpose government, or by incremental property tax revenues that are reserved exclusively for debt service on such issue (and similar issues). Blighted areas are designated by a local governing body based on the substantial presence of factors such as excessive vacant land on which structures were previously located, abandoned or vacant buildings, substandard structures, vacancies, and delinquencies in payment of real property taxes.

The volume of certain tax-exempt private activity bonds, including qualified mortgage bonds, bonds for qualified residential rental projects, and qualified redevelopment bonds, that States and local governments may issue in each calendar year is limited by State-wide volume limits. The current annual volume limits are $75 per resident of the State or $225 million if greater. These dollar limits are indexed for inflation for years after 2002.

Indian Employment Credit

Unfortunately, many residents of Native American communities continue to struggle economically. The Indian Employment Credit provides an incentive for job growth in these communities. Employers may claim an Indian Employment Credit on the qualified wages and employee health insurance costs paid to an enrolled member of an Indian tribe in compensation for services performed on or near a reservation. The credit amount is equal to 20 percent of the excess of the employer's current year qualified wages and employee health insurance costs over the sum of the corresponding amounts paid or incurred by the employer during calendar year 1993. The aggregate amount of qualified wages and health insurance costs may not exceed $20,000 per person per year. This incentive was due to expire at the end of 2003, but has been extended through 2004 by the recently enacted Job Creation and Worker Assistance Act of 2002.

Depreciation of Property Used on Indian Reservations

Another tax incentive that encourages economic development on Indian reservations is the accelerated depreciation of qualified Indian reservation property. This accelerated depreciation is accomplished through the use of shorter recovery periods for certain property. In order to qualify for this provision, a property must (1) be used by the taxpayer predominantly in the active conduct of a trade or business within an Indian reservation, (2) not be used outside the Indian reservation on a regular basis, (3) not be acquired from a person related to the taxpayer, and (4) not be used for the purpose of certain gaming activities. In addition, property for which the alternative depreciation system is applied is not eligible for this provision. This provision was scheduled to expire for property placed in service after 2003, but was extended through 2004 by the recently enacted Job Creation and Worker Assistance Act of 2002.

Low-income Housing Tax Credit

Taxpayers who invest in qualified low-income rental units are eligible for the low-income housing tax credit (LIHTC). The LIHTC may be claimed over a 10-year period for a portion of the cost of rental housing occupied by tenants having incomes below specified levels. The credit percentage for newly constructed housing that is not federally subsidized is adjusted monthly by the Internal Revenue Service so that generally the 10 annual credit amounts have a present value of 70 percent of qualified basis. The credit percentage for new buildings that are federally subsidized and for existing buildings is calculated to have a present value of 30 percent of qualified basis. In general, the aggregate first-year credit authority allocated to each State is $1.75 per capita in 2002 and will be indexed for inflation in following years. Tax credits are allocated to particular projects by State or local housing agencies pursuant to publicly announced plans for allocation. Authority to allocate credits may be carried forward by agencies to the following calendar year. Unused credit allocations may be returned to an agency for reallocation. Credit allocations may revert to the agency if less than 10 percent of the taxpayer's reasonably expected qualifying basis is expended within 6 months after receiving the allocation. Authority not used in a timely manner reverts to a national pool for distribution to States requesting additional authority. Generally, a qualifying building must be placed in service in the year the credit is allocated unless at least 10 percent of the taxpayer's reasonably expected basis in the property is expended in the year of allocation or within 6 months after the allocation date. Rules are provided for the allocation of costs to individual units in multi-unit projects and to property that is part of a project but used for purposes other than rental housing. The tax credit period begins with the taxable year in which a qualified building is placed in service (or, in certain circumstances, the succeeding taxable year). Credits are recaptured if the required number of units is not rented to qualifying tenants for a period of 15 years.

In certain geographic areas designated by the Secretary of Housing and Urban Development, LIHTC amounts awarded to projects may be increased by up to 30 percent. These areas are: Difficult Development Areas, defined as metropolitan areas and nonmetropolitan counties where development costs are high relative to area incomes (limited to 20 percent of U.S. metropolitan and nonmetropolitan populations); and Qualified Census Tracts, census tracts, containing not more than 20 percent of their metropolitan area or State nonmetropolitan populations, where either at least 50 percent of households have incomes below 60 percent of area median income, or the poverty rate is at least 25 percent.

Work Opportunity Tax Credit

Employers are generally entitled to the work opportunity tax credit (WOTC) for the first $6,000 of wages paid to several targeted groups of economically disadvantaged workers or workers with disabilities. For workers employed between 120 and 400 hours per year, the credit rate is 25 percent of qualified wages. For workers employed over 400 hours per year, the credit rate is 40 percent. Employers must reduce their deduction for wages paid by the amount of the credit claimed. Current WOTC target groups include qualified: (1) recipients of Temporary Assistance to Needy Families; (2) veterans; (3) ex-felons; (4) high-risk youth; (5) participants in State-sponsored vocational rehabilitation programs; (6) summer youth; (7) food stamp recipients; and (8) Supplemental Security Income recipients.

A qualified high-risk youth employee listed above is an individual at least 18 years old but less than 25, who lives within an empowerment zone, enterprise community, or renewal community. A qualified summer youth employee works for the employer between May 1 and September 15, is 16 or 17 years old, and resides within an empowerment zone, enterprise community, or renewal community. The limit on the wages of a summer youth employee that qualify for the credit is reduced to $3,000.

At the time the Administration proposed the FY 2003 budget, the WOTC was scheduled to expire at the end of 2001. The Administration proposed that the WOTC be extended through 2003. This was accomplished by the Job Creation and Worker Assistance Act of 2002.

The House is considering the Encouraging Work and Supporting Marriage Act of 2002. The bill would combine the WOTC and the welfare to work (WTW) credit by making persons eligible for WTW a WOTC target group with special rules. The WTW credit enables employers to claim a tax credit for eligible wages paid to certain long-term welfare recipients. The changes contained in the House bill will simplify the computation of the credit for employers that hire members of the economically disadvantaged targeted groups. We commend the proposed tax simplification.

Brownfields Remediation Costs

A brownfield site is real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. Because lenders, investors, and developers fear the high and uncertain costs of cleanup, they avoid developing contaminated sites. Blighted areas of brownfields hinder the redevelopment of affected communities and create safety and health risks for residents. The obstacles in cleaning these sites, such as regulatory barriers, lack of private investment, and contamination and remediation issues, are being addressed through a wide range of Federal programs, including the tax incentive for brownfields remediation.

To encourage the cleanup of contaminated sites, the brownfields tax incentive permits the current deduction of certain environmental remediation costs. Environmental remediation costs qualify for current deduction if the expenditures would otherwise be capitalized (generally costs incurred to clean up land and groundwater that increase the value of the property) and are paid or incurred in connection with the abatement or control of hazardous substances at a qualified contaminated site. A qualified contaminated site generally is any property (1) that is held for use in a trade or business, for the production of income, or as inventory; (2) at or on which there has been a release, threat of release, or disposal of a hazardous substance; and (3) that is certified by the appropriate State environmental agency as to the release, threat of release, or disposal of a hazardous substance. Sites that are identified on the national priorities list under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) do not qualify as qualified contaminated sites. The brownfields tax incentive applies to expenditures paid or incurred before January 1, 2004.

Administration Budget Proposals

The President's Budget for FY 2003 includes two proposals to improve upon these tax incentives and further encourage development in economically distressed communities. In addition, there are other Administration proposals that would help low-income individuals, such as the creation of Individual Development Accounts, increased incentives for charitable giving, and a refundable tax credit for the purchase of health insurance, which are not discussed in this testimony.

Single-Family Housing Tax Credit

The Administration believes that quality of life in distressed neighborhoods can be improved by increasing home ownership. Existing buildings in these neighborhoods often need extensive renovation. Renovation may not occur because the costs involved exceed the prices at which the housing units could be sold. Similarly, the costs of new construction may exceed their market value. Properties will sit vacant and neighborhoods will remain blighted unless the gap between development costs and market prices can be filled. The Administration has proposed the creation of a single-family housing tax credit (SFHTC) to expand the possibility of home ownership for low-income families.

First-year credit authority of $1.75 per resident would be made available annually to States (including U.S. possessions) beginning in calendar year 2003. The per capita amount would be indexed for inflation beginning in 2004. Pursuant to a plan of allocation, State or local housing credit agencies would award first-year credits to housing units comprising a project for the development of single-family housing in certain low-income census tracts. Rules similar to the current law rules for the LIHTC would apply regarding carry forward and return of unused credits and a national pool for unused credits. Units in condominiums and cooperatives could qualify as single-family housing. Credits would be awarded as a fixed amount for individual units comprising a project. The present value of the credits with respect to a unit could not exceed 50 percent of the qualifying costs of the unit. For these purposes, present value would be determined based on the mid-term Applicable Federal Rate in effect for the date the agency allocated credits to the project. Rules similar to the current law rules for the LIHTC would apply to determine eligible costs of individual units. The Treasury Department would have the authority to promulgate necessary reporting requirements.

The taxpayer (developer or investor partnership) owning the housing unit immediately prior to the date of sale to a qualified buyer would be eligible to claim SFHTCs over a 5-year credit period beginning on that date. No credits with respect to a housing unit would be available unless the unit was sold within a 1-year period after the construction or rehabilitation was completed.

Eligible homebuyers would have incomes at 80 percent (70 percent for families with less than 3 members) or less of applicable median family income. They would not have to be first-time homebuyers. Homebuyers would be subject to recapture provisions in certain circumstances. In particular, recapture rules would apply if the homebuyer (or a subsequent buyer) sold the property to a nonqualified buyer within 3 years after the date of initial sale of the unit. No recapture provision would apply to taxpayers eligible to claim SFHTCs. If a housing unit for which any credit is claimed were converted to rental property by the initial homebuyer within the first 3 years following the purchase, expenses relating to the unit would not be allowed as a deduction with respect to that unit during that time period.

The proposal would be effective beginning with first-year credit allocations for calendar year 2003. The revenue cost of this proposal is expected to be $2.4 billion over FY 2003–2007.

Brownfields Remediation Costs

The Administration believes that encouraging environmental remediation is an important national goal. The brownfields provision encourages the cleanup of contaminated brownfields, thereby enabling them to be brought into productive use in the economy and mitigating potential harms to public health. The current-law incentive was made temporary to encourage faster cleanup of brownfields. Experience has shown, however, that many taxpayers are unable to take advantage of the incentive because environmental remediation often extends over a number of years. For that reason, the President's budget proposed a permanent extension of the brownfields tax incentive. Extending the special treatment accorded to brownfields on a permanent basis would remove doubt among taxpayers as to the future deductibility of remediation expenditures and would promote the goal of encouraging environmental remediation. The Administration's brownfields proposal was introduced by Mr. Coyne and Mr. Weller as H.R. 1439.

The revenue cost of the proposal is estimated to be $1.1 billion over FY 2003–2007. Treasury estimates that the proposal, at a $300 million annual cost, will leverage approximately $2 billion per year in private investment.

Conclusion

I would like to thank you, Mr. Chairman, Mr. Coyne and the Members of the Subcommittee for providing the chance today to discuss these important issues. I hope that, working together, we can ensure that all Americans share in our country's prosperity and have even greater opportunity in the future. While this concludes my prepared testimony, I would be pleased to respond to your questions.

Chairman HOUGHTON. Thanks very much, Mr. Solomon.

I think we will go to the questions. I want to ask a very brief question, and it is sort of a generic question which you may be able to answer. I am sure you have the answer right on the tip of your tongue.

As you know, most of us here are big supporters of the work opportunity tax credit, but the question is, is it a good incentive for business? Does it work? Is it the right thing? Are we doing the right thing?

Mr. SOLOMON. Certainly, I believe that the work opportunity tax credit does the right thing. Providing tax incentives to help employers provide opportunities for employees is very important.

Chairman HOUGHTON. Thank you.

Mr. BERNARDI. I would just like to add that this is the other way of looking at it, as opposed to grants to providing this opportunity to a businessperson. As a former mayor in our center city, there were many areas that were neglected for a number of years. This kind of an incentive package allows a businessperson to come into that area and utilize those wage credits—if it is a Renewal Community that is $1,500 per employee, if it is an Empowerment Zone, it is $3,000. I believe one of the Congressmen mentioned the welfare-to-work benefit of $3,500 the first year, $5,000 the second year for individuals that were long-term welfare recipients.

It comes down to the bottom line. If a businessperson is going to be able to save money on their taxes, they are going to be able to invest in areas that have been basically neglected for years.

On the selection process, the communities that were selected were the communities that were most in need. In traveling the country and making many of the announcements myself, I can see the enthusiasm and the opportunity. People filled with hope that they would have something that they would be able to do at the local level without government interference, if you will, and have the opportunity to create jobs and give a better quality of life to their people.

During the Renewal Community announcements, Mr. Chairman, I was doing those in New York, as you recall, and could not land in the great City of Jamestown because of the cloud cover. I think that is the last time we spoke.

Chairman HOUGHTON. I had to give your speech for you.

[Laughter.]

Mr. BERNARDI. Jamestown, along with the other 39 recipients, feel very energized by the Implementation Conference that is taking place today. We have the CPAs, the tax experts, the Treasury Department, the people who understand the advantages that the business communities can access to create businesses, to create jobs.

Chairman HOUGHTON. Thanks very much. I really appreciate that.

Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Mr. Bernardi, are the businesses that are eligible to claim Renewal Community tax incentives, are they largely new business moving into the depressed area or are they existing businesses planning to expand or improve their operation?

Mr. BERNARDI. Mr. Coyne, it can be both. It depends on the marketing of the Renewal Communities. Tucson, Arizona, has a website where they are available to all of the existing businesses that are in the Empower Zone and census tracts. They will be given an opportunity to participate, but at the same time you want to bring new business in. So the answer would be both.

Mr. COYNE. So, to the extent that existing businesses might take advantage of the opportunity, it can be used to attract new businesses into the community.

Mr. BERNARDI. Yes, it can.

Mr. COYNE. What are some of the unique plans that are underway in using Renewal Community tax incentives? Can you tell us about some of the more unique and innovative plans?

Mr. BERNARDI. Well, the wage credits, the work opportunity tax credit are examples. This is a tax credit where an individual that is difficult to employ, usually a younger person between the ages of 18 and 24, perhaps not educated, having difficulty, there is a tax credit of $2,400 a year that can be provided in addition to the Renewal Community wage credit of $1,500 a year. There is the welfare-to-work credit. There is the increase section 179 deduction on certain depreciable property, such as equipment and machinery. These are some of the myriad of incentives that are available for the communities to take advantage of.

Mr. COYNE. Anyone else want to comment?

Mr. SOLOMON. No.

Mr. COYNE. Thank you.

Chairman HOUGHTON. Mr. Hulshof.

Mr. HULSHOF. Thank you, Mr. Chairman.

Welcome, gentlemen. It is good to have you here in front of the Oversight Subcommittee. I really wanted to focus a little bit about some of the applications. As you know, Congress, when we set upon this number of 40 Renewal Communities and we designated 28 urban and then 12 rural settings, I also—Mr. Bernardi, you mentioned over 100 applications. I think the actual number was around 103. What percentage, roughly—I am not asking for a specific percentage—what percentage of those 103 applications were from the urban communities vis-à-vis the rural communities? Were they 50–50, were most of them urban or—Mr. Solomon, maybe, do you have that information, or——

Mr. BERNARDI. There were 103 applications, 77 that were eligible, of that 40 received the designation. They were mostly urban, I have been told.

Mr. HULSHOF. The objective criteria—it is, again, my understanding that—and of the 77 that you found to be qualified, were you able to immediately write off those, for instance, that did not have this pervasive poverty level or unemployment levels? Is that what disqualified the first 28 or so?

Mr. BERNARDI. Yes. For the most part. If they didn't—if they weren't able in an objective way to have the poverty level or the unemployment level, they were disqualified.

Mr. HULSHOF. The census tract requirements. Was that 1990 census data or 2000 census data, or maybe a combination?

Mr. BERNARDI. It was 1990 census data for the requirements on population unemployment and poverty, because we won't have the complete census numbers until perhaps the fall of this year.

Mr. HULSHOF. What, if anything, Mr. Bernardi, did HUD do to help applicants improve their chances of being selected?

Mr. BERNARDI. Well, we had five regional workshops in June 2001. We sent out kits, which were available through the Web, we had telephone conversations, and through our regional offices, we made sure that everyone could participate in the process and understand the process. Quite candidly, we need to always do a better job of informing all of the communities what is available. That is why I am just so pleased with this conference that is taking place right now. All of the information that anyone would want is here, so they will be able to access those tax incentives to help their communities.

Mr. HULSHOF. You mentioned the conference. Is there a strong interest for additional communities at this time, or do you think that this number is an adequate number?

Mr. BERNARDI. Well, this was the number that was designated, and I feel strongly that it will let us see some performance as we go down the road and see how this conference culminates. We don't want to stop here. We want to do some regional conferences, we want to make sure that everyone that is in this room and is attending this conference has an opportunity to follow up with us. We must continue to provide the assistance so that the enthusiasm and the willingness to create these economic opportunities for people continues.

Mr. HULSHOF. Mr. Solomon, let me ask you just a couple of questions as well. Mr. Bernardi was talking about wage credits. Perhaps as a predicate to this question, my congressional district in Missouri is predominantly rural. I think one of the communities that actually submitted an application did not meet that objective criteria of unemployment—which is good for the local community because their unemployment was not as pervasive.

Yet, it is my sense that a lot of small businesses, Mr. Solomon, may not qualify because I think family members, the wage credits for family members are excluded. Is that true?

Mr. SOLOMON. That is correct with respect to the wage credit. You don't get a wage credit for compensation paid to family members.

Mr. HULSHOF. As a result, then, a small business can actually be excluded because family members who may be part of the business, this wage credit is in that calculation?

Mr. SOLOMON. Well, it may not be excluded. That is, it may generally qualify for various benefits under the Renewal Communities tax incentives. Nevertheless, for the wage credit, it may not get a wage credit with respect to compensation paid to family members.

Mr. HULSHOF. What is the policy reason for that determination?

Mr. SOLOMON. This provision comes from the Empowerment Zone legislation from 1993, and there really is nothing in the legislative history or the statute that explains it. The best one might infer is that there was some concern about a lack of arm's length dealing in certain situations in dealing with family members. So that is perhaps the best inference that I can make from the statute and legislative history.

Mr. HULSHOF. So if congressional intent were to be otherwise, or additional legislation, follow-up legislation—I mean, you were making your determination based upon your best inference of congressional intent?

Mr. SOLOMON. Solely from the statute and the legislative history.

Mr. HULSHOF. Thank you, all.

Chairman HOUGHTON. Thanks very much, Mr. Hulshof.

Mr. Jefferson.

Mr. JEFFERSON. Thank you, Mr. Chairman.

I want to ask kind of a technical question. We were fortunate to receive a Renewal Community designation in New Orleans. We are already looking at little areas that were left out close to the area that was approved, and there is talk about seeking post-application approval of some of these areas into which we would like to expand.

Have you looked at this issue of changing the Renewal Community boundaries post-application approval? If so, what does that process entail?

Mr. SOLOMON. I am sorry, could you repeat the question?

Mr. JEFFERSON. Yes. In our city, for instance, there has been an application approval for a Renewal Community. There is some discussion now about expanding the boundaries of it or having it extend to some particular area because it might facilitate the location of a business or whatever. My question is, is there a process established—is it possible to change the boundaries post-application approval, and if it is, what is the process, or have you thought about that?

Mr. BERNARDI. The census tracts that are in place, obviously, once the designation is made is the census tracts that the application was approved, but Empowerment Zones do have an opportunity, if they want, to make an amendment to that, and to appeal to HUD. Obviously, the criteria to do that is that the poverty numbers and the unemployment numbers couldn't fluctuate; they would have to be eligible in all other criteria. Right now, I don't believe, we are that amenable to making those kinds of changes unless, quite candidly, there is a compelling reason or reasons to do so. We would look at that.

I think there is one instance where we have already had that kind of an inquiry, to modify a Renewal Community boundary, and I believe we are in the process of taking a look as to whether or not it can be done.

Mr. JEFFERSON. As we are looking at this issue of the CRAs, or the coordinating responsible authorities that are being put together back home, there are some questions as to whether HUD ought to provide some tax utilization planning money or market tax incentives money to local businesses and prospective business entrants. There is no funding provided for that now.

Has this cropped up in your office as a real issue? If so, are the thinking about addressing it in any way?

Mr. BERNARDI. Well, the conference that is taking place right now, obviously, is providing technical assistance and information that the communities are going to need to make the decisions as to how they want to utilize these tax incentives. Also, the designated communities have the opportunity to use their CDBG money, for example, the Community Development Block Grant money. Some of those, I believe, do that to provide additional technical assistance.

As I said earlier, I believe we are planning to do regional—we have done regional conference prior to the application process. We are looking forward to going out into the country in various regions and continue to conduct workshops, to deal with all of the designees from our regional offices as well as headquarters.

Mr. JEFFERSON. I was intrigued with the comments someone made about single-family housing tax credits being included in the President's budget. Jennifer Dunn and I were working some time ago to have the historic tax credits applied to single-family housing. Do you remember that, Jennifer? It is very important to old cities.

Does this initiative the President has in his budget for single-family housing tax credits also apply to the—would it cover the historic tax credit issues for single-family housing development?

Mr. SOLOMON. In general, there is a separate rehabilitation tax credit, but I don't think that is applicable to what you are describing. This particular budget proposal is not keyed to whether or not the building is a historic building.

Mr. JEFFERSON. Just for single-family—it doesn't matter whether—it could be or could not be?

Mr. SOLOMON. It could be a historic building, but it might not be a historic building. It applies to both new construction and for rehabilitation of previously constructed buildings. It could be a historic building; it might not be, but it does cover both new construction and rehabilitation.

Mr. JEFFERSON. Okay, thank you. Thank you, Mr. Chairman.

Chairman HOUGHTON. Thanks very much.

Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman. I find it very exciting to hear about this program. We have talked about it for decades. I remember, particularly in the eighties, hearing about economic Empowerment Zones and that sort of thing. So, I am delighted to see this in action.

Mr. Chairman, I think I am going to hold my questions, because what I really want to hear are the examples from the folks who are among these—citizens of these cities. I want to know what their plans are, and what they have in mind as they have been accepted to be on of these 40 cities.

I might just ask you one question, and that is did you need to market this opportunity to people, or did you find that you were breaking down your door? Did people have a clear idea of what was expected from them in qualifying, and also a clear plan for what they intended to do with all the various credits and so forth after they were selected?

Mr. BERNARDI. There is a great deal of enthusiasm, obviously, by the recipients. We find that in the Empowerment Zones, the applications and comprehensive plans that they put together are a little bit different than the Renewal Community. We are very, very excited about working together. This conference has shown the enthusiasm. There are representatives here, I believe, from just about every one of the 40 Renewal Communities. All of the experts are here to answer all of the questions regarding the tax benefits that accrues to the communities, and with over 100 applications, there is a significant amount of interest.

Mr. SOLOMON. I would say particularly on the tax side, education and outreach are very important to explain the tax benefits that are available to businesses in Renewal Communities. There are many people who may not know exactly the extent of the tax incentives that are available, how they work, and how they apply to their particular business. So, education and outreach are very important.

Ms. DUNN. I suppose there is one other point that I would like to clarify, because I think it is an important part of this whole experimental program that I hope someday we will broaden. Though the revenues from taxes will fall as a result of the credits that are allowed and the tax benefits that are allowed to the companies and others who do business in the areas, I think it is important for you to make the point that there will be more businesses moving into these areas and that there will in the long run be more employment and probably additional revenues. I am not sure how it is scored, Mr. Chairman. Could you comment on that, please?

Mr. BERNARDI. Obviously, the goal is to create more jobs, have more businesses start up, and businesses expand. With that, the natural progression would be that there would be more tax dollars available after we see the successes.

Chairman HOUGHTON. Mr. Pomeroy. Oh, Mr. Pomeroy is not here. Mr. Ford, have you got a question you would like to ask? All right. Then we will go to Mr. Foley.

Mr. FOLEY. Thank you very much, Mr. Chairman, for holding the hearing.

Mr. Bernardi, four communities within my State of Florida—Miami, Fort Myers, West Palm, and Riviera—applied to be Renewal Communities. None made it. I know these communities and I know their needs, so I am curious about how the 40 winners selected for the Renewal Community status were picked. If you could elaborate a little bit more on this.

Mr. BERNARDI. Sir, the statute enacted by Congress, the CRTR Act of 2000, specified the geographic and demographic eligibility criteria and the State and local commitments, of which the nominating governments must choose at least 8 of 11 specified goals and strategies. Then we had an interagency team of specialists review the applications and make a determination as to whether or not that criteria was met, and that resulted in the designations of the 40 communities. If anyone would like to look at the individual applications of any community, that has been done. We have done that with applicants.

Mr. FOLEY. Okay, let me give you Riviera, because that is not my congressional district. It is in the county, and it is represented by Alcee Hastings. It is very poor and has high unemployment. In fact, within the Renewal Community, more than 71 percent of the households are low-income and more than 12 percent of its residents are unemployed. Burlington, Vermont, its unemployment stood at 10 percent. So, is unemployment not the sole factor? Are there other mitigating factors that may have caused——

Mr. BERNARDI. Unemployment and poverty are the main factors. There are other factors that enter into the scoring process.

Mr. FOLEY. A question I always have, and it is difficult for some communities to access grants. How much help do you provide through HUD in getting these communities up and running? I know some communities always get every grant, because they have grant writers, they hire the best, they have computer technology. Some communities, like Riviera, are struggling to pay their bills. So for them to hire someone specifically to try and pursue grants would probably be outside their norm.

Is there programmatic help within HUD to bootstrap some of these more impoverished communities?

Mr. BERNARDI. There is. We do it from headquarters and from the regional offices. As I indicated earlier, there were five conferences that were held in the month of June around the country, prospective grantees to come in and receive as much information as they possibly could as to how to access the system, and how to be successful in their application.

Of course, once HUD receives the applications, we are prohibited from having any further discussions. We understand exactly what you're talking about, the smaller communities that don't have the capacity or the wherewithal. At the regional office level, that is what our teams are there to do, they go out and provide as much pre-information as they possibly can so that everyone has, as best as they possibly can, a level playing field.

Mr. FOLEY. Let me ask you this. If the communities that are already designated as enterprise zones get special treatment or favorability, doesn't that significantly lower the chances that other communities that are not enterprise zones would be able to participate in a similar program?

Mr. BERNARDI. No. The 20 enterprise zones, obviously, were the first 20 that were selected in the Renewal Community. The 21st qualified without being an enterprise community.

Mr. FOLEY. Is there anything Congress needs to do additionally to help with these programs, because I see real potential here? I am not trying to pick on you because none of the four cities in my State got approved. It is not the purpose of the inquiry. I will pick on you later, in private.

Mr. BERNARDI. We designated Jacksonville as an Empowerment Zone.

Mr. FOLEY. Great. Are there other things that we should be helpful on as well, because I think it is a two-way street? We have to also, legislatively or appropriations-wise, provide the impetus to help these communities. I see it as a magnificent—I am sure that is why Mr. Ford is here. Memphis, I think, is significant in its applications, and others. So, we all want to be part of this positive progress for communities that are struggling on the margins and open before them those same economic opportunities.

Mr. BERNARDI. Well, I think any time we can improve upon a program that we have in place or that we are proposing, we would be happy to work with you and members of your staff. We welcome any ideas or suggestions that you have where we can make it more attractive, more competitive, and include more people.

Mr. FOLEY. Great. Mr. Solomon, I see you nodding your head. Did you want to add to the record at all?

Mr. SOLOMON. No, I did not.

Mr. FOLEY. Okay, thank you. Thank you, Mr. Chairman.

Chairman HOUGHTON. Thank you. Any other questions? If not, thank you, gentlemen, very much for your participation here.

Now I would like to call the next panel. Steven Centi, Director of Development of Jamestown; Eric Johnson, who is the Economic Grants Services Director in Baton Rouge, Louisiana; Susan Ramos, the Director of Owsley County Industrial Authority, Booneville, Kentucky; Dale Nadeau, Chairman and President of Industrial and Business Development in Belcourt, North Dakota; and the Honorable Willie Herenton, the Mayor of Memphis, Tennessee.

What I thought I would do, Harold, is I would introduce Steven Centi, and you might want to do the same thing for Mayor Herenton. If Earl Pomeroy comes along, he can say something about Dale Nadeau.

Well, Mr. Centi, we are delighted to have you here and as prerogative of the Chairman to have you speak first. Mr. Centi is the Director of Development in Jamestown, New York, and a participating Renewal Community Member in my district. You have done a magnificent job. We thank you very much for being here. We also thank again Bob Kenyon, Sally Martinez, and Kay Sibley for being with you.

Also, I would like to make mention of Sam Teresi. Sam Teresi is the Mayor of Jamestown and was the Director of Development for many years. He really laid the groundwork for a lot of the things which we are doing. So, we thank you very much for being here.

Now, Mr. Ford, would you like to introduce your——

Mr. FORD. Yes. Yes, sir. Thank you, Chairman. Thank you, equally important, all of my friends on the Subcommittee for allowing me to sit here on the Subcommittee. As you know, for some time, I have expressed to Mr. Coyne and Mr. Jefferson a desire to serve on this Committee. My dad served on it for 22 years, and just a little taste of it is always good, Mr. Jefferson and Mr. Houghton. So, I appreciate your letting me sit here.

I am delighted to have before the Subcommittee and to have before the Congress, and particularly this Committee, the Mayor of my city, Mayor W.W. Herenton. He is now in the middle of his third term as our Mayor and has overseen a great growth and revitalization in many parts of our city, particularly the downtown part of our area.

This piece of legislation, or this initiative, I applaud this Subcommittee and certainly the many in the Congress who played a big role in making it happen. One of the first times we are attempting, I think, at the Federal level to apply some of the same principles that work in the private sector and the market principles that have allowed certain communities to grow—poor and depressed communities that have been slow to enjoy the kind of growth the Nation has enjoyed over the years.

There are three things that I think distinguish, Mr. Chairman, this Renewal Community from some of the other efforts on the part of the Congress or other Federal efforts as a whole. First is that this Renewal Community project recognizes that revitalization at the local level must start at the ground up. Two, I think it recognizes that the private sector, the only way you can ensure sustainable economic growth is to involve the private sector in meaningful ways. Three, we recognize that many of our urban centers in rural areas represent probably the greatest untapped resources in this Nation.

For that matter, when you consider world markets as to urban centers and rural centers in America that, quite frankly, are so underutilized. The second component to this program is it recognizes, against the wishes of perhaps some in State government and even at the Federal level, that the Federal Government and government as a whole can play a role in catalyzing investment and growth in many of these areas.

Just to follow up to my friend Mr. Foley's comment, I think one of the things that the Subcommittee should consider in addition to maybe expanding the number of cities that can participate in this Renewal Community and Empowerment Zone program is to look at ways in which we take those communities which are middle class and have been slipping over the years. The only challenge, the only piece of advice that I would offer to this procedures Subcommittee—which always gets it right, I might add—is that you look at ways in which to help those neighborhoods and communities that, again, over the years have seen a slip or decline.

There is no need to wait for them to fall into that low level before we begin to take steps to lift them back up. If there is a way in which to track commercial development and commercial growth, even provide a new level of incentives or tax credits, I think at least you would find the support of several Democrats, including me—and I see my friends Mr. Jefferson and Mr. Coyne nodding their heads as well—and for that matter, the entire Congress, it might allow some of the communities that Mr. Foley spoke about. Now that my father is no longer a resident in my district—he actually lives in your State now—I know he would appreciate that as well, Congressman Foley.

I thank you, Mr. Houghton, for the time. I know if John Tanner was here—I know he was here earlier and had kind things to say—I know he would also welcome Mayor Herenton to the Subcommittee—to his Subcommittee, since he is the Member of the Tennessee delegation, and who serves on the Committee.

With that, I thank you, Mr. Houghton, and yield back the balance of my time.

Chairman HOUGHTON. Thanks, Mr. Ford. Now I would like to introduce Mr. Jefferson, who in turn would like to introduce Mr. Eric Johnson.

Mr. JEFFERSON. I thank you, Mr. Chairman.

Mr. Ford, if this were an audition for membership on the Subcommittee, I think you would have landed the part.

Mr. HULSHOF. Mr. Jefferson, would you yield?

Mr. JEFFERSON. Yes, sir.

Mr. HULSHOF. In fact, of course, we—and Mr. Mayor, I have great personal regard for your congressman. He is a good friend of mine. Mr. Jefferson, I know we had no say into the makeup of the Members on your side, but if we could trade somebody from your side for Mr. Ford, I would be—I would not tell you who we would like to move off the Subcommittee to bring Mr. Ford on. Thanks for yielding.

Mr. JEFFERSON. I have some ideas.

[Laughter.]

Mr. JEFFERSON. Mr. Chairman, I thank you for the opportunity to present Mr. Eric Johnson to this body. He is the Director of Economic Grants Services for the Department of Economic Development in our State. He has done an outstanding job, evidenced, if nothing else, by what has happened in our State with the Renewal Communities. Louisiana submitted six Renewal Community applications and successfully received four approvals, two urban and two rural. So, Mr. Johnson and his staff and that whole department have done an excellent job.

He will provide us some background on the Renewal Community efforts and describe how the Renewal Communities tie into our Governor's overall economic development plan for Louisiana, Vision 20/20. His testimony will be summarized by him, I am sure, but it is attached, and I think it is worth reading in full.

The Governor has announced Vision 20/20 and has put a great part of it into effect down in our latest legislative session, but a part of it depends on what we do here. I would be interested to have this Subcommittee hear Mr. Johnson's presentation.

So, we thank him for coming. We appreciate the work he is doing in our State, and congratulate him on what he, Governor Foster, and our Secretary of Economic Development, Don Hutchinson, have done to bring about the wonderful results we have experienced in Louisiana on the Renewal Community applications. Thanks a lot.

Chairman HOUGHTON. Thank you, Mr. Jefferson.

Now, Mr. Centi.

STATEMENT OF STEVEN CENTI, DIRECTOR OF DEVELOPMENT, CITY OF JAMESTOWN, NEW YORK

Mr. CENTI. Mr. Chairman, I'd like to thank you for this opportunity. Mr. Coyne and other Members of the Subcommittee, it's a tremendous honor for me to be here representing the City of Jamestown, New York. I hope that during the few short minutes I have here I can give you an overview of what's going on in our city, which I don't—atypical of a lot of the small cities around this country.

The City of Jamestown, for those of you that aren't aware, is in the southwest corner of New York State. We're the largest city in Chautauqua County. We have a population of a little bit over 31,000 people, and we are also within 500 miles of 50 percent of the population of the United States.

The City of Jamestown, as Chairman Houghton mentioned before, is facing some serious financial issues as are other cities, I'm sure. We have about a $1.4 million operating fund deficit at this point in time, a B–double-A–3 bond rating, which effectively precludes our ability to borrow money. We have the lowest per capita income of any New York State metropolitan area and also have the highest per capita tax rate of any metropolitan area in New York State.

The city has lost 24 percent of its population since 1960. The city has lost over $13 million. The city has lost over $13 million in taxable assessment since 1990; 66 percent of our housing stock was built prior to 1940 and only 3 percent was built post-1980.

The same goes for our industrial building stock. We have a lack of developable land in the city. The Renewal Community designation is very important because it—actually the former county landfill sits right in our Renewal Community area and in one of the census tracts which provides us with an opportunity through the brownfields credits to help stimulate development in that area.

I don't mean to paint a bleak picture; there is a lot of good things happening in the City of Jamestown. Right now, our entire downtown is in our Renewal Community census tract. There is over $35 million of private investment going on right now in our downtown, which is somewhat unprecedented in our community. It is spearheaded by a private development effort from a local foundation; one of our strong partners. I would like to elaborate on that particular aspect of possibly why we were chosen as a Renewal Community, why we applied with the fact that we also—we currently have a number of strong partnerships on the public-private, not-for-profit foundation all working together in our community.

One of our strongest partners is, of course, the Greater Jamestown Empire Zone, which is one of our State partners providing us with the expertise to use tax credits. They have used those effectively, which helps our case in terms of being able to utilize the tax credits available at the Federal level.

Also, the Greater Jamestown Empire Zone has a lending arm, which is called the Greater Jamestown Zone Capital Corporation, the first Zone Capital Corporation formed in the State of New York.

We have strong county partners. One of our county agencies was designated as an Environmental Protection Agency brownfield pilot assessment project. The Chautauqua Industrial Development Agency is the lending arm that provides tax abatements that can help work with the Renewal Community benefits that are available.

On the Federal side, we are also a CDBG, a HUD entitlement community for the CDBG program and for the home program. One of the aspects of the Renewal Community census tracts is that they overlap both our block grant targeted neighborhood programs, overlap the Greater Jamestown Economic Zone. Now we have the Renewal Community designation to add to the arsenal of tools that we have at our disposal to help turn things around in the City of Jamestown.

We have numerous local partners. The city has a revolving loan fund that has been in existence since 1981 and has done over 200 loans, all low-interest rate loans. It is operated out of my department. My previous capacity was as the Director of that and Bob Kenyan, who is here with me today, is the Director of that right now at this point in time.

In addition, we are also a federally designated Weed and Seed community through the U.S. Department of Justice and that was one of the cornerstones of our application for our Renewal Community designation.

I would like to actually mention some of the goals that we have here because I think those are important, and they kind of address some of the issues that Ms. Dunn brought up before and Mr. Foley.

What we are looking to do in the City of Jamestown through this designation is, hopefully, to attract new businesses, to utilize underutilized property that we have right now for new development opportunities to expand the city's tax base. We are looking to increase employment. We are looking to, actually, use this program to leverage programs that are already ongoing and established through our block grant program with our targeted home ownership programs and our targeted neighborhood rehabilitation programs.

We are also looking at reducing crime. In addition to our Weed and Seed program, there is a very strong element there that is spearheaded by our local police department that handles the weeding side of that particular program.

I mentioned earlier the brownfield credits, which I think are very important for us because we do have acres and acres of land that currently can't be utilized right now unless we can find a way to turn that around. By providing these tax incentives to prospective developers, we will have the ability to bring those online.

So, at this point, I would like to thank you for your time, thank you for your consideration, and also thank you for your confidence in the City of Jamestown.

[The prepared statement of Mr. Centi follows:]

Statement of Steven Centi, Director of Development, City of Jamestown, New York

Jamestown, New York: A Snapshot View

Jamestown, New York is a city of 31,730 people situated in the southwest corner of New York State approximately 75 miles southwest of Buffalo, New York. As the largest city in Chautauqua County, New York, Jamestown serves as the principal urban center for Southwestern New York and portions of Northwestern Pennsylvania. Jamestown lies within a three-hour drive to Toronto, Canada, Pittsburgh, Pennsylvania, Cleveland, Ohio, and Rochester, New York. Within a 500-mile radius of the City of Jamestown are over 120 million people representing over 50% of the population of the United States.

Boasting a high quality of life, the Jamestown area is surrounded by bountiful recreational amenities such as Chautauqua Lake, Allegheny State Park, numerous ski resorts, plentiful golf courses, and the nearby Lake Erie. The world famous Chautauqua Institution is only a short drive away. The City of Jamestown also maintains over 540 acres of City parkland and the City-owned Russell E. Diethrick, Jr. Park is the home to the Jamestown Jammers, a Class A New York-Penn League professional baseball team.

Jamestown takes great pride in its hometown heroes of world renowned naturalist and ornithologist Roger Tory Peterson; United States Supreme Court Justice and Nuremberg lead prosecutor Robert H. Jackson; New York State Governor and U.S. Senator Reuben E. Fenton; and the first lady of comedy Lucille Ball.

High quality educational institutions such as the Jamestown Public School System, which is the largest in the Southern Tier of New York State; Jamestown Community College, New York's first community college; and the 115-year-old Jamestown Business College, characterize Jamestown. Jamestown residents take particular pride in their Jamestown High School Red Raiders football team, which has been the New York State Class AA football champions three times over the past eight years.

The Questions:

Why Renewal Community?
Why Jamestown, New York?

These interrelated questions revolve around the current problems facing Jamestown, New York and similar small cities across the United States that did not ride the wave of economic prosperity of the 1990's. According to a recent report from the *U.S. Bureau of Economic Analysis*, the City of Jamestown has the lowest per capita income of any Upstate New York metropolitan area at $21,208. This compares unfavorably with the national average of $29,469. At the same time, Jamestown has the highest per capita property tax rate in New York State. In an era of declining revenue sources and escalating operating expenses this combination is not conducive to attracting new development to our city.

Jamestown is characterized by aged residential and industrial building stock. According to the 1990 census, over 66% of Jamestown's residential homes were built prior to 1940 and only about 3% were built subsequent to 1980! The same can be said for the antiquated multi-story industrial building stock that does not suit the needs of today's manufacturers. In addition, it has been the city's experience that the demolitions of vacant industrial buildings to make way for new development sites has almost inevitably been followed by costly and time-consuming environmental remediation efforts.

Over time, Jamestown has seen an out-migration of higher paying manufacturing jobs and their replacement with lower paying service-related positions. In the wake of the loss of these positions has been a general deterioration of the City's neighborhoods as homeowners have either moved from the City or can no longer maintain their properties as they once could. Jamestown has seen a steady decline in population over time as the city has lost over 24% of its residents since 1960. Further exacerbating the neighborhood decline has been the general aging of the overall population as older homeowners move to more convenient subsidized senior units thus leaving their once owner-occupied properties to absentee landlord investors who have not maintained the properties to their previous standards.

Financially, the City of Jamestown suffers from many of the same problems as other Western New York communities. The bottom line is that there is too little revenue to cover escalating expenses. During the most recent FY 2002 budget process, it was confusing as to whether the local media was referring to Jamestown or Buffalo, NY or Rochester, NY as the same issues were at the root of all these cities' financial woes. Rapidly rising healthcare costs, losses of taxable assessment, declining populations leading to smaller shares of sales tax revenues, uncertain and less than equitable shares of state supplemental aid, and collective bargaining contracts that literally strangle city resources. Since 1990 the City of Jamestown has lost over $13 million in taxable assessment, a reduction of over 6.5% from the 1990 level of $205,562,660. The debilitating effect of this revenue-to-expense disparity in Jamestown has been an accumulated operating fund deficit of over $1.4 million and the reduction of the City of Jamestown's bond rating to baaa3, which effectively eliminates the city's ability to borrow money.

The City of Jamestown's application for the ***Renewal Community*** designation was predicated on turning around the financial fortunes of Jamestown, New York by providing another tool to "level the playing field" and attracting prospective developers to our city. The ***Renewal Community*** tax credits will be used in combination with New York State tax credits currently available through the ***Greater Jamestown Empire Zone (GJEZ)*** to offset and overcome the perception that Jamestown is an expensive place to develop and own and operate a business. These benefits, coupled with ***Jamestown Board of Public Utilities (BPU)*** electric power rates (which are among the lowest in the nation), will serve to make Jamestown much more attractive as a development destination.

In addition to the aforementioned tax and utility benefits, the City of Jamestown is well poised to move forward, with a wide array of development tools at its disposal. In addition to being designated as one of forty (40) new ***Renewal Communities***, Jamestown is also a national U.S. Department of Justice ***Weed and Seed Community***, a U.S. Department of Housing and Urban Development (HUD) entitlement community for ***Community Development Block Grant (CDBG)*** and ***HOME Program*** funding. Locally, low-interest rate development funding is available through the ***Jamestown Local Development Corporation (JLDC)***, the ***Greater Jamestown Zone Capital Corporation (GJZCC)***, and the ***Chautauqua County Industrial Development Agency (CCIDA)***. Upon his election, Jamestown Mayor Samuel Teresi re-invigorated the dormant **Jamestown Strategic Planning and Partnerships Commission** that is currently undertaking an aggressive, comprehensive, community-based strategic planning initiative to map out the City's future.

Jamestown, NY—Renewal Community (RC) Designee: The Future is Brighter

While the aforementioned financial issues represent a challenge to the City of Jamestown, historically the City has shown the resiliency to bounce back. There is much encouragement on the horizon primarily through effective leadership that is aggressively reducing both the size and cost of City and County government as well as an unprecedented level of public, private, and not-for-profit collaboration working together to turn things around. Jamestown's selection as a ***Renewal Community*** is a testimony to the confidence the Federal Government has in the City's capacity to leverage the RC benefits with other available incentives as well as the City's demonstrated ability to work in partnership with the following organizations:

- **Greater Jamestown Empire Zone (GJEZ)**—a cooperative partnership between the City of Jamestown, the Village of Falconer, the Town of Ellicott, and the Town of Busti which utilizes New York State tax credits to leverage job creation and industrial expansion projects.
- **Greater Jamestown Zone Capital Corporation (GJZCC)**—the lending arm of the GJEZ. The first Zone Capital Corporation formed in New York State.
- **Jamestown Local Development Corporation (JLDC)**—the lending arm of the City of Jamestown. Since 1981, this revolving loan fund has made loans to over 220 Jamestown businesses totaling over $12,500,000, leveraging over $75,500,000 in private investment and creating over 2,000 jobs.
- **Jamestown Urban Renewal Agency (JURA)**—administers the City of Jamestown's annual Community Development Block Grant (CDBG) and HOME Program entitlements from the U.S. Department of Housing and Urban Development (HUD). Since 1990, JURA has successfully delivered over $20,000,000 worth of CDBG and HOME program projects for economic development, housing rehabilitation, neighborhood revitalization, and Americans With Disabilities Act (ADA) handicapped accessibility improvements to the City.
- **Jamestown Weed and Seed Program**—this Department of Justice designation for Jamestown has provided funding to reduce crime, eliminate drugs, and promote increased neighborhood involvement and revitalization.
- **Neighborhood Watch Coalition**—works in conjunction with Weed and Seed to increase neighborhood awareness and involve residents to "take back their neighborhoods."
- **Downtown Jamestown Development Corporation (DJDC)**—a local not-for-profit that advocates for Downtown Jamestown Central Business District revitalization. Currently coordinating a Downtown urban design plan with Dr. Norman Mintz of Corning, NY fame.
- **Jamestown Center City Development Corporation (JCCDC)**—a local not-for-profit created by the local philanthropic Gebbie Foundation that is constructing a $21,000,000 Downtown Jamestown dual-pad ice arena scheduled to open in August 2002.
- **Chautauqua Works, Inc.**—coordinated workforce investment board that identifies job skills training and job opportunities for Jamestown area residents.
- **Chautauqua County Industrial Development Agency (CCIDA)**—a not-for-profit Chautauqua County economic development agency that works in partnership with the City and GJEZ on numerous expansion and new development projects.
- **Jamestown Strategic Planning and Partnerships Commission**—local commission appointed by the Mayor of Jamestown and ratified by Jamestown City Council that is currently undertaking an aggressive, comprehensive strategic planning initiative to map out the city's future.
- **Jamestown Board of Public Utilities (BPU)**—Jamestown's number one asset. As a municipal power generating utility company the BPU offers some of the lowest cost electric power in the United States at $.03 per kwh, while also providing water, sewer, and garbage services. In recent years, the BPU has developed some spin-off services using the by-products of their energy production in the forms of District Heating and the newly created District Cooling systems.

While the above list is not all-inclusive, it represents several of the organizations and initiatives that are currently underway and active in the Jamestown community. Other partners in these collaborative revitalization efforts are the Jamestown

Public School System, the Arts Council for Chautauqua County, the Manufacturers Association of the Jamestown Area, the Chautauqua County Visitors Bureau, the Fenton History Center, the Jamestown Area Chamber of Commerce, Jobs Chautauqua, the Weed and Seed "Safe Havens" at the Jamestown YMCA, Love School, and the 2 XL Youth Center, several local philanthropic foundations, such as the Gebbie Foundation, the Sheldon Foundation, the Chautauqua Region Community Foundation, and the Carnahan-Jackson Foundation, as well as many local businesses and innumerable local individuals. The collective efforts of all the aforementioned have resulted in an unprecedented level of development in recent years highlighted by the following ongoing projects:

- *$5.5 Million Redevelopment of the Chadakoin Building.*
- *$21 Million Jamestown Center City Dual-Pad Ice Arena Project.*
- *Downtown West End Eminent Domain Site Acquisition Activities.*
- *$2.7 Million Best Western Inns & Suites Hotel Project.*
- *Potential Redevelopment of Vacant Former Wintergarden Theater.*
- *National Downtown "Main Street" Program in Association with the DJDC.*
- *PowerNet Global Call Center Expansion Project.*
- *City's First Street Townscape Program.*
- *Former Rite-Aid Building Marketing and Redevelopment Activities.*
- *Civic Center Block Apartments Project for Artisans.*
- *Proposed $3.5 Million Erie Railroad Station Redevelopment Program.*
- *Expansion of the Fenton History Center.*
- *Western New York Historical Railroad Society I–1 Steam Locomotive Project.*
- *Western New York Historical Railroad Society Excursion Trains Project.*
- *Expansion/Relocation of the Lucille Ball-Desi Arnaz Museum.*
- *$1 Million Commons Mall/Willow Bay Commerce Center Redevelopment.*
- *Robert H. Jackson Law Center Project.*
- *City Sponsored Sale and Subsequent Private Redevelopment of:*
- *9 West Third Street (New Jamestown Savings Bank Location)*
- *106–110 East Second Street (New Home of Chautauqua Music)*
- *2–4 East Second Street (Upgraded Fenton Building)*
- *City Chadakoin Riverwalk Construction—Phase I—Summer 2002.*
- *Reconstruction of the Cherry Street Parking Ramp.*
- *Reconstruction of the North Main Street Parking Ramp.*
- *Development of a City Wide Parks System Strategic Plan.*
- *Chadakoin Park Skateboard Park Project.*
- *2 XL Youth Center Project.*
- *YMCA Teen Center Project.*

Jamestown, New York—Renewal Community Goals

The Federal ***Renewal Community*** tax incentives coupled with the New York State tax credits and tax abatements offered by the ***Greater Jamestown Empire Zone***, low-interest rate loans available through the ***Jamestown Local Development Corporation***, ***Chautauqua County Industrial Development Agency***, and ***Greater Jamestown Zone Capital Corporation***, as well as grants available through the HUD ***Community Development Block Grant*** program make a potent mixture of project-related incentives to promote Jamestown as an attractive City to invest in. Through the combined use of this array of incentives our ambitious goals are to accomplish the following:

- **Continue and expand the redevelopment of Downtown Jamestown's Central Business District that is currently seeing over $35 million of private development activity.**
- **Increase the City of Jamestown's tax base through new commercial and industrial development.**
- **Increase sales tax generation through expanded business developments.**

- **Significantly increase employment opportunities in the City of Jamestown.**
- **Leverage new commercial development into enhanced and increased development in the RC designated areas.**
- **Promote new technologies such as fiber optics and the businesses that develop around them.**
- **Improve residential neighborhoods in RC Census tracts 303 and 305 as well as neighborhoods Citywide.**
- **Reduce crime in Renewal Community neighborhoods and Citywide.**
- **Redevelop the former Chautauqua County landfill, which is located in the Jamestown Renewal Community area using Brownfield clean-up RC incentives.**
- **Improve and update the City's aging parking ramp and streetscape infrastructures.**

All of the individuals, organizations, and governmental units who are dedicating their time and energy toward the betterment of the Jamestown community are looking forward to adding the ***Renewal Community*** designation and its associated benefits to the other incentives at our disposal to ensure a brighter future for all residents of the City of Jamestown. Thank you for your consideration and confidence in the City of Jamestown, New York.

Chairman HOUGHTON. Thanks, Mr. Centi, very much. Mr. Johnson?

STATEMENT OF ERIC A. JOHNSON, DIRECTOR, ECONOMIC DEVELOPMENT GRANT SERVICES, LOUISIANA DEPARTMENT OF ECONOMIC DEVELOPMENT, BATON ROUGE, LOUISIANA

Mr. JOHNSON. Good afternoon, Mr. Chairman Houghton and Members of the Subcommittee. It is a pleasure to appear before the Subcommittee today to discuss the Renewal Community initiative in Louisiana and how it got started.

My objective here, today, is to explain how the Renewal Community initiative got started and provide you with a brief description of the Renewal Communities, their current status, how the Renewal Communities are tied into the State's long-range economic development plan, and where we go from here.

Through a coordinated effort of the Governor's Office, multiple local governments, State agencies, community and economic development stakeholders across the State, six renewable community applications were prepared and submitted to HUD for Renewal Community designation. The challenge in submitting six applications were to coordinate the multiple governmental entities across six areas.

The process was started by first identifying the pockets around the State with the most entrenched poverty. Some of these areas had poverty as high as 90 percent. Six regions were identified and a staff member from the Governor's Office was assigned to coordinate each region. Through this process, local meetings were held throughout the State and a local lead entity was identified and local consensus was achieved.

The course of action was established and an application was compiled. The overall objective in the Louisiana Renewal Community application process was to include as many contiguous distressed census tracts in Renewal Community areas so that the benefits of the Renewal Community initiative would cover as large an area as possible.

The regions of the State represented in this process that submitted applications were 4 rural areas, which included North Louisiana, which is 15 parishes with a population of about 199,000, a poverty rate of 33 percent and an unemployment rate of 12 percent; Central Louisiana, which included 11 parishes with a population of 192,000, a poverty rate of 34 percent and an unemployment rate of 13 percent; South-central Louisiana, which included 8 parishes, a population of 195,000, a poverty rate of 32 percent and an unemployment of 12 percent; Southeast Louisiana, included 15 parishes, population of about 199,000, a poverty rate of 38 percent, and an unemployment rate of 13 percent; 2 urban applications which included a portion of Orleans and Jefferson Parish, which is comprised of 7 census tracts in the center of New Orleans and on the edge of Jefferson Parish. This area has a poverty rate of 54 percent, a population of 26,000, and an unemployment rate of 18 percent. Ouachita Parish, which is in Northern Louisiana was comprised of 15 census tracts, representing 15 different local governments, population of 43,000, a poverty rate of 50 percent and an unemployment of 18 percent.

Of these six severely distressed areas of the state, North Louisiana and Central Louisiana were chosen as two rural Renewal Communities and Orleans and Jefferson and Ouachita Parish were selected as the two urban Renewal Communities.

In total, the four designations comprised of 29 of Louisiana's 64 parishes, include 460,000, have an average unemployment rate of 15 percent and an average poverty rate of 43 percent. Currently, the four Renewal Communities have developed their coordinating responsible authorities, have begun developing tax utilization plans and are currently developing a standardized form.

The standardized form will be used by the CRAs in all four Renewal Communities for potential businesses looking to locate and to expand their businesses in the Renewal Community area and take advantage of the tax incentives available. More importantly, the four Renewal Communities are coordinating their strategies and tying into the State's long-range strategic plan for economic development, which is called Louisiana Vision 20/20.

The State's new strategic plan, Vision 20/20, is a challenge to create a better Louisiana and a guide to economic renewal and diversification. Vision 20/20 is built around a vision of Louisiana as a place, 18 years from now, with a vibrant balanced economy, a well-educated work force, with a quality of life that places it among the top 10 States in the Nation in which to live, work, and visit, and do business.

To make this vision a reality, the Louisiana Department of Economic Development has adopted economic clustering as an economic development strategy, statewide. In fact, we are the first State in the Nation to adopt economic clustering as a strategy Statewide.

In partnering with the Louisiana Department of Economic Development, the Renewal Communities CRAs will work to coordinate business attraction efforts and will focus their efforts on growing and expanding businesses that are specifically part of nine target cluster industries that have been identified by the State to grow its economy for the new economy.

The overall strategy is to attract value-added jobs in the Renewal Community regions that will pay wages that can help lift families out of poverty. This will be accomplished by the CRAs and Louisiana Department of Economic Development cluster directors, regional directors, and regional representatives working in tandem to attract, market, and educate both existing and potential industry about the Renewal Community.

The Renewal Community initiative is already proving to be a valuable tool for Louisiana. For example, a building truss manufacturer with 30 new jobs has decided to locate in the Northern Renewal Community. Also, a cut-and-sew manufacturer of athletic apparel, with 20 jobs has committed to locating in the Northern Renewal Community.

The Louisiana Department of Economic Development is also using the Renewal Community tool in discussions with biotech companies in the New Orleans area, and a port development company in Northern Louisiana to spur job creation and reduce poverty. Both, if successful, will bring jobs to the Renewal Community and reduce poverty. Moreover, the number of hits to the renewallouisiana.com Website, further supports the interest in this initiative. This site has been visited over 60,000 times with each visit lasting over 14 minutes.

Louisiana is very grateful to have been the recipient of four Renewal Community designations. However, many areas of the State were not successful and should Congress create additional Renewal Communities, these areas would benefit greatly.

The State of Louisiana looks forward to partnering with community leaders, economic development professionals and organizations, business, and the Federal Government to make this a successful initiative. Thank you.

[The prepared statement of Mr. Johnson follows:]

Statement of Eric A. Johnson, Director, Economic Development Grant Services, Louisiana Department of Economic Development, Baton Rouge, Louisiana

Good afternoon, Mr. Chairman Houghton and Members of the Committee. My name is Eric Johnson. I am Director of Economic Development Grant Services for the Louisiana Department of Economic Development. It is a pleasure to appear before the Committee today to discuss the Renewal Community (RC) initiative in Louisiana. My objective here today is to explain how the Louisiana RC initiative got started. I will provide you with a brief description of the RC's, their current status, how the RC's are tied into the State's long range economic development plan, and where we go from here.

Through a coordinated effort of the Governor's Office, multiple local governments, State agencies and community and economic development stakeholders across the State, six Renewal Community applications were prepared and submitted to the U.S. Department of Housing and Urban Development for the RC designation. The challenge in submitting six applications were to coordinate the multiple governmental and community entities that existed in the six areas. The process was started by first identifying the pockets around the State with the most entrenched poverty. Some of these areas had poverty rates as high as 90%.

Six regions were identified and a staff member within the Governor's Office was assigned to coordinate each region. Through this process local meetings were held throughout the State and a local lead entity was identified and local consensus was achieved. A course of action was established and an application was compiled. The overall objective in the Louisiana Renewal Community application process was to include as many contiguous distressed census tracts in the RC area so that the benefits of the RC initiative would cover as large an area as possible.

The regions of the state represented in this process that submitted applications were in the following four rural areas:

- North Louisiana included 15 parishes with a population of 199,000, a poverty rate of 33% and an unemployment rate of 12%.
- Central Louisiana included 11 parishes with a population of 192,000, a poverty rate of 34% and an unemployment rate of 13%.
- South Central Louisiana included 8 parishes, a population of 195,000, and a poverty rate of 32% and an unemployment rate of 12%.
- Southeast Louisiana included 15 parishes, a population of 199,000, a poverty rate of 38%, and an unemployment rate of 13%.

Two urban applications included:

- A portion of Orleans and Jefferson Parish (which was comprised of seven census tracts in the center of the city of New Orleans and on the edge of Jefferson Parish). This area has a poverty rate of 54%, a population of 26,000, and an unemployment rate of 18%.
- Ouachita Parish (which was comprised of 15 census tracts representing four different local governments). The population of the application area is 43,000 with a poverty rate of 50%, and an unemployment rate of 18%.

Of these six severely distressed areas of the state, North Louisiana and Central Louisiana was chosen as two rural Renewal Communities and Orleans/Jefferson and Ouachita Parish were selected as two urban RC communities. In total, the four designations are comprised of 29 of Louisiana's 64 parishes, include 460,452 people, have an average unemployment rate of 15%, and have an average poverty rate of 43%.

Currently the four RCs have developed their Coordinating Responsible Authorities (CoRAs), have begun developing tax utilization plans, and are currently developing a standardized form. This form will be used by the CoRAs in all four RCs for potential businesses looking to locate and/or expand their businesses in the RC area and take advantage of the tax incentives. More importantly, the four RCs are coordinating their strategies and tying into the State's long range strategic plan for economic development, *Louisiana: Vision 2020.*

The State's new strategic plan, *Louisiana: Vision 2020* is a challenge to create a better Louisiana and a guide to economic renewal and diversification. *Vision 2020* is built around a vision of Louisiana as a place (18 years from now) with a vibrant, balanced economy, a well-educated workforce, with a quality of life that places it among the top ten States in the Nation in which to live, work, visit and do business. To make this vision a reality, the Louisiana Department of Economic Development (LED) has adopted economic clustering as an economic development strategy statewide. In partnering with LED, the RC communities' CoRAs will work to coordinate business attraction efforts and will focus their efforts on growing and expanding businesses that are specifically a part of the nine targeted industry clusters in which the state has identified to grow and expand the economy in Louisiana. The overall strategy is to attract value added jobs to the RC regions that will pay wages that can help lift families out of poverty. This will be accomplished by the CoRAs and LED cluster directors and regional representatives working in tandem to attract, market, and educate both existing and potential industry about the benefits of the RC community.

The RC initiative is already proving to be a valuable tool for Louisiana. For example, a building trust manufacturer with 30 new jobs has decided to locate in the Northern RC. Also, a cut and sew manufacturer of athletic apparel, with 20 jobs, has committed to locating in the Northern RC. LED is also using the RC tool in discussions with biotech companies in the New Orleans area, and a port development company in North Louisiana to spur job creation and reduce poverty. Both, if successful, will bring jobs to the RC community and reduce poverty. Moreover, the number of hits to the **renewallouisiana.com** web site furthermore supports the interest in this initiative. This site has been visited over 60,000 times with each visit lasting over 14 minutes.

Louisiana is very grateful to have been the recipient of four RC designations. However, many areas of the state were not successful in either the RC or EC applications. Should Congress create additional Renewal Communities, these areas would benefit greatly.

The State of Louisiana looks forward to partnering with community leaders, economic development organizations, businesses, and federal and local government officials to make this program a success.

Thank you.

Chairman HOUGHTON. Thanks very much, Mr. Johnson. Ms. Ramos?

STATEMENT OF SUSAN RAMOS, EXECUTIVE DIRECTOR, BOONEVILLE/OWSLEY COUNTY INDUSTRIAL AUTHORITY, BOONEVILLE, KENTUCKY, ON BEHALF OF EASTERN KENTUCKY RENEWAL COMMUNITY

Ms. RAMOS. Hi, thank you. On behalf of the Eastern Kentucky Renewal Community, I want to thank you for allowing us to speak today. I want to thank you, Mr. Chairman, and all the other Committee Members and other Members of Congress who have worked to make this program possible. I especially want to thank our Congressional Representative Hal Rogers of the Fifth District for everything he does for the Fifth District in helping us to increase our economy and make a better quality of life for our people.

You cannot imagine the excitement throughout our communities in the State of Kentucky when we were notified that we received a Federal Renewal Community designation. We realize that true economic development must come from within, and we are prepared to carry out the commitments that we made. We have thought long and hard about what it is going to take to renew our community, and we take seriously the commitment to make our Renewal Community a success.

Our first steps have been taken with much enthusiasm and careful consideration. We wanted our existing businesses and individual community members to know about this designation immediately. In addition to distributing information to businesses about the substantial business incentives related to the designation, we have made a concerted effort to educate the people of our communities about how this designation will affect them personally, as well. In addition to the tax incentives for business, our local, regional, state, and Federal partners have made a commitment to the people of our communities to increase the level and efficiency of local services, increase crime reduction strategies in order to make our communities a safer place to live, increase the economic development activities, including access to jobs and job training, and to continue to improve industrial property in order to attract businesses and create much needed jobs.

We know that the majority of our business investment as a result of the Renewal Community designation will come from our existing small businesses. Therefore, our immediate reaction to the designation was to begin notifying our businesses about the availability of these incentives. We created our own rural unique way of getting the word out. We ordered hundreds of copies of the Internal Revenue Service Publication 954 and several copies of the Tax Incentive Guide for Business. This information has been distributed by mail, individually, at public meetings, and in local restaurants where many of our business people eat lunch every day. This type of interaction has caused at least 20 of our existing businesses to begin seriously considering how they can expand or how they might hire more employees as a result of this designation.

We are also in the process of creating our Tax Incentive Utilization Plan and a creative marketing campaign to attract new business and jobs to our areas.

We are conducting an assessment of buildings that house businesses, or could potentially house businesses, and are in need of major repair or renovation. We are beginning to contact these business owners to discuss with them the possibility of taking advantage of the Commercial Revitalization Deduction. Not only will the owners benefit, but the community image will improve, as well.

Small business is at the heart of our rural community. We are making sure that all of them get information about all of the incentives, especially the Renewal Community Wage Credit and the Work Opportunity Tax Credit. This incentive, alone, will have a major impact on the profitability and sustainability of our small businesses. One problem we face is that many small businesses, including farms, are family-owned and -operated. Therefore, their employees do not qualify for these deductions.

With our Pine Ridge Regional Industrial Authority, we plan to use the Increased Section 179 Deduction to attract businesses with heavy equipment and machinery needs that will rely on access to major, four-lane highways.

We realize that we are not tax experts and that we have a lot to learn about the benefits of this program in order to effectively use these incentives to improve our economy. So, the University of Kentucky stepped in, along with Moorehead State University and the Wolfe County Extension Service to host the Eastern Kentucky Renewable Community Tax Incentive Seminar. Linda Schakel, a partner with the Ballard, Andrews, and Ingersoll law firm in Washington, was the guest speaker. She did an outstanding job of teaching us all more about these incentives and helping us to stir even more interest from our existing businesses.

The University of Kentucky, through the Smart Business Recruitment Program, is working in our Renewal Community to help with tourism opportunities and economic development and planning. They are about to conduct a targeted industry and business analysis, using the tax incentives associated with this designation in order to help us create a more effective marketing campaign.

I have described only a few of the first steps we have taken as a Renewal Community and have given you a few examples of how we are using these incentives to attract business investment. We are already experiencing success as a result of this designation and are very excited about our future.

As Chairman Houghton stated in his hearing announcement, “These Renewal Communities are important. We are creating an environment where individuals can lift themselves and their families to a new level of security.” We have certainly had our share of problems over the years, but as Duke Ellington said, “A problem is a chance for you to do your best.” We are certainly doing our best and hope that you are impressed with our accomplishments.

Again, on behalf of everyone in our Eastern Kentucky Renewal Community, I want to thank you for the opportunity to speak to you today.

[The prepared statement of Ms. Ramos follows:]

Statement of Susan Ramos, Executive Director, Booneville/Owsley County Industrial Authority, Booneville, Kentucky, on behalf of Eastern Kentucky Renewal Community

On behalf of the Eastern Kentucky Renewal Community, I am honored to have this opportunity to speak to you concerning our Renewal Communities designation and how we plan to use these incentives to attract business investment into our community. First, I want to thank the Chairman, all other Committee Members, and other Members of Congress who have worked to make this program possible. I especially want to thank our Congressional Representative, Hal Rogers, for being here and introducing me today. We are truly grateful.

You cannot imagine the excitement throughout our communities and the State of Kentucky when we were notified that we were designated a Renewal Community. We realize that true economic development must come from within and are prepared to carry out the commitments made by the Eastern Kentucky Renewal Community. We have thought long and hard about what it is going to take to renew our community and we take seriously the commitment to make our Renewal Community a success.

Our first steps have been taken with much enthusiasm and careful consideration. We wanted our existing businesses and individual community members to know about this designation immediately. In addition to distributing information to businesses about the substantial business incentives related to the designation, we have made a concerted effort to educate the people of our communities about how this designation will affect them personally as well. In addition to the tax incentives for business, our local, regional, State, and Federal partners have made a commitment to the people of our community to increase the level and efficiency of local services, increase crime reduction strategies in order to make our communities a safer place to live, increase the economic development activities including access to jobs and job training, and to continue to improve industrial property in order to attract businesses and create much needed jobs.

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I have described only a few of our first steps as a Renewal Community and have given you a few examples of how we are using the Renewal Community incentives to attract business investment. We are already experiencing success as a result of this designation and are excited about our future.

As Chairman Houghton stated in his hearing announcement, "These Renewal Communities are important. . . . We are creating an environment where individuals can lift themselves and their families to a new level of security." We have certainly had our share of problems over the years, but as Duke Ellington said, "A problem is a chance for you to do your best." We are certainly doing our best, and hope that you are impressed with our achievements.

Again, on behalf of everyone in our Eastern Kentucky Renewal Community, I want to thank you for the opportunity to speak to you today.

Chairman HOUGHTON. Thanks, very much, Ms. Ramos.

Now, Mr. Pomeroy, would you like to introduce Mr. Nadeau?

Mr. POMEROY. Thank you, Mr. Chairman. Yes, am I to understand that Mr. Nadeau has yet to testify?

Chairman HOUGHTON. Not yet, we're waiting for you.

Mr. POMEROY. I thank you for that. I was meeting with the Appropriations Subcommittee Ranking Member and that was a very important meeting, but I'm pleased to be back.

Well, I think that when we talk about Renewal Communities, we often think about the urban pockets of poverty. Representing North Dakota, I'm here to tell you that there are some very distinct rural pockets of poverty as well and none more so than our Indian Reservations. The community, the Turtle Mountain Reservation on which Turtle Mountain Manufacturing is located has 42 percent of its population earning less than $25,000, 27 percent earning less than $10,000 a year. More than 60 percent of the single-family households headed by women, live in poverty.

Now, in this challenging and difficult environment, Turtle Mountain Manufacturing, a business begun under the Small Business Administration 8A Program, has employed as many as 200 local residents at any given time, sustained a work record, and a product quality record that has gained it a really terrific reputation.

What we think this does for our opportunities to grow and diversify the economy of Turtle Mountain Indian Reservation is attract private investment. So often the tribal government with casino revenues is the only game in town in terms of start-up capital, which means all new enterprises are, essentially tribally-owned enterprises. We want private capital and private businesses, divorced from ownership of the tribal council, not subject to total upheaval every time there is an election. We think that all of this is so important as it applies to a Renewal Community application. We are still in the planning stages, relative to Turtle Mountain. There is some wonderful leadership all around the country, Congressman Ford has told me about the tremendously exciting things Memphis has going. I think that if we can look at a rural application of what you have done in the city, your own leadership will be really important to us up in North Dakota—up at the Turtle Mountain Indian Reservation.

With that said, Mr. Chairman, a really talented Chief Executive Officer and leader, for rural development, Mr. Nadeau.

Chairman HOUGHTON. Good, thanks very much. That is a wonderful build-up for Mr. Nadeau.

STATEMENT OF DALE NADEAU, PRESIDENT AND CHAIRMAN, INDUSTRY AND BUSINESS DEVELOPMENT, TURTLE MOUNTAIN MANUFACTURING COMPANY, BELCOURT, NORTH DAKOTA

Mr. NADEAU. Mr. Chairman, Ranking Member Coyne, and Members of the Subcommittee on Oversight, good afternoon.

My name is Dale Nadeau and I am the President and Chairman of the Industry and Business Development at Turtle Mountain Manufacturing Company in Belcourt, North Dakota. I extend my thanks to the Subcommittee for the opportunity to provide testimony on the Renewal Community Initiative today.

The Turtle Mountain Manufacturing Company was founded in 1979 as a low to medium volume metal fabrication manufacturing plant with a variety of production capabilities. Our company handles manufacturing, welding, finishing, and generally employs 150 to 200 people annually. The cornerstone of Turtle Mountain Manufacturing Company is its employees. We view our employees as members of a team and strive to create opportunities for their education and advancement.

The Turtle Manufacturing Company is located in Belcourt, North Dakota, on the Turtle Mountain Indian Reservation. The reservation is home to the Turtle Mountain Band of Chippewa Indians and is located in the north-central part of the State, near the Canadian border. The Turtle Mountain community includes a major health care facility, an educational system that includes a federally chartered local community college, a federally recognized housing administration, manufacturing, and service industries.

Unfortunately, like so many Indian communities across the country, Turtle Mountain has long faced severe economic troubles, and to a large extent, these difficulties have only worsened in recent years. The Turtle Mountain Reservation today struggles with an unemployment rate near 65 percent, with more than half the reservation's residents below the poverty line.

To make matters worse, our community has recently been forced to fight a terrible natural disaster. A wet cycle that hit the region in the late nineties created soil conditions which led to an infestation of black mold in several hundred homes on the reservation. The region was included in a Presidential disaster declaration issued last year, and many families were displaced.

Despite the economic difficulties Turtle Mountain faces, I believe that our community has the ingredients to build a better future. The most important of these ingredients is a population that is determined to work hard and to do what it takes to improve the quality of life on the reservation. I have always found my employees to be steady, determined, and highly motivated.

We are grateful for being selected as 1 of the 12 rural communities and 40 communities nationwide to participate in the Renewal Communities program. Designation as a Renewal Community by HUD will help bring Turtle Mountain the economic stimulus it needs to revitalize its potential. We gladly accept this designation, and the promises and challenges it will bring over the next several years.

As a Renewal Community, we will actively pursue business opportunities in industries that will bring economic self-sufficiency to the Turtle Mountain Reservation. Our primary goal will be to provide employment opportunities for the citizens of Belcourt and the surrounding areas; a population in excess of 17,000 residents.

I strongly believe that the tax incentives that are part of Renewal Community program will provide a great economic stimulus to the region. These incentives will not only make it possible for existing businesses, such as Turtle Mountain Manufacturing Company to expand but, also make the reservation an attractive option for new businesses, as well.

In addition to the tax incentives that make the Renewal Communities program so important to our community, this program has been designed to combine Federal resources with local initiatives to achieve and sustain greater economic development. In implementing this program, HUD has truly taken an innovative approach to economic revitalization. The Renewal Community designation gives us important economic tools to attract the investment necessary to sustain economic development. However, the program also recognizes that local communities, working together, can best identify and develop local solutions to the problems they face. Therefore, Turtle Mountain and other Renewal Community designees will have a great deal of control over how the program is implemented on the local level. With this designation comes the challenge of utilizing to the best possible interests of the community, and Turtle Mountain is determined to do so.

The Turtle Mountain Reservation has begun the process of creating a long-range economic development plan which takes full advantage of our Renewal Community designation. This plan will detail specific steps that Turtle Mountain will take to fully capitalize on the Renewal Community designation. We intend to expand businesses, reduce unemployment, and increase homeownership. We hope that as a Renewal Community, we can begin the economic revitalization of our region and improve our quality of life.

The citizens of Belcourt and the Turtle Mountain Reservation are very excited to be part of this program. As both a businessman and a community member, I share their excitement. This is a valuable program that offers a great deal of economic hope to our region. We are grateful to be designated as a Renewal Community and confident that this designation will help bring a better future to our region.

Mr. Chairman, and Members of the Subcommittee, on behalf of Turtle Mountain Reservation and the Turtle Mountain Band of Chippewa Indians, I again thank you for allowing me to testify before you today. Thank you.

Chairman HOUGHTON. Thanks, Mr. Nadeau.

Mayor Herenton.

STATEMENT OF THE HON. WILLIE W. HERENTON, PH.D., MAYOR, MEMPHIS, TENNESSEE

Dr. HERENTON. Thank you very much, Mr. Chairman. Distinguished Members of Congress, and this Subcommittee, I am profoundly honored to have the opportunity to come before you today to share our plans to implement the Memphis Renewal Community. I am also grateful for the appearance of my Congressman Hal Ford, Jr., who had to leave for another Committee presentation. Over the next 8 years, the impact of this designation will touch hundreds of thousands of citizens by stimulating the economic engines that allow for the creation and expansion of businesses.

The Memphis Renewal Community is one of the largest urban Renewal Communities in the country, both in geographical size and the number of residents and businesses that will benefit. The 48 census tracts that comprise the area encompass 40 square miles with a population of 112,534 residents and an estimated 5,000 businesses. The Federal tax incentives now available to these businesses will promote significant economic development and, even more importantly, create jobs and reduce poverty.

There has been significant economic growth in Memphis in the last 10 years. Unfortunately, the benefits of that growth have not extended into the entire community. Our Renewal Community reflects the areas in Memphis which have the greatest need and which offer the best utilization of tax incentives to stimulate business growth. The challenges of poverty and unemployment that permeate the fabric of Memphis are not easily solved. We recognize and acknowledge that there are pervasive and longstanding problems that require new and collaborative initiatives to address the core problems that allow this life cycle of human struggle to continue.

These solutions will not come without great effort. However, our faith sustains us and the human spirit within us provides the motivation and a desire to create livable and sustainable communities. The Renewal Community we envision will accomplish this goal by not only creating economic opportunities but, also providing hope to many Memphis residents. Along with us on this exciting journey of change are both community and private-sector participants. All constructing a new paradigm for living, brick-by-brick, cemented together by the desire and the will to control their own destiny.

Mr. Chairman, please allow me to take just a few minutes to share the significant impact of this program in monetary terms. Before we received the designation, we analyzed the potential value of each of the tax incentives available. Our estimates were conservative, yet staggering.

The 2000 census indicates that there are approximately 60,000 people in the Renewal Community between the ages of 18 and 64 and able to work. If the wage credit is estimated based on the presumption that 30 percent of the population will also work within the Renewal Community and qualify for the maximum credit of $1,500, the annual value of the Renewal Community Employment Credit is estimated to be almost $28.6 million. Extended over the life of the life of the designation, the estimated value of this credit is over $228.7 million.

With almost 32,000 employees in Shelby County, FedEx is our largest employer—22,500 of these employees work in the Memphis Renewal Community and approximately 1,300 of those also live within the designate area, making them eligible for the employment credit. Another one of the major employers, Buckeye Technologies, has estimated their annual wage credit of $25,000.

This program will even be more valuable to smaller businesses. It looks as if my time is running out.

Mr. Chairman, and Members of this Subcommittee, let me as Mayor of the 18th largest city in America express the very emphatic belief that the Congress was right on target in creating this initiative. The potentials for yielding tremendous economic benefits, job creation, poverty abatement, will be enormous and highly beneficial to urban and rural communities and Memphis appreciates the opportunity. We feel that with marketing and accurate data collection, we will make the Congress proud of this designation. Thank you, sir.

[The prepared statement of Dr. Herenton follows:]

Statement of the Hon. Willie W. Herenton, Ph.D., Mayor, City of Memphis, Tennessee

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But this program will be even more valuable to smaller businesses. Congress created the Small Business Administration in 1953 to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." These economic development tools and tax incentives will be crucial to the well-being and survival of small businesses within the Renewal Community.

We have done an analysis for each of the Renewal Community tax incentives and have estimated that the total impact to our community will be in excess of $300 million dollars over the 8-year designation!

Successful implementation of our Renewal Community Tax Incentive Utilization Plan is our next critical step in this process. Collaboration was the key to our successful application and will be a major emphasis for successful implementation. We have already begun by creating a Renewal Community Advisory Board.

This Advisory Board will lead the city's efforts, including oversight of statutory requirements related to the Course of Action, development of the Tax Incentive Utilization Plan to ensure maximum use of available tax incentives, promotion of the incentives in conjunction with other Federal, State and local incentives, and the development of systems to track and report usage of all available incentives.

Membership on this board consists of representatives from public and private entities including residents from the RC, businesses, banks, the Workforce Development Agency, Memphis Regional Chamber, CPAs, real estate professional and State and local government entities. This Advisory Board has already developed an extensive marketing plan in preparation for the submission of our preliminary Tax Incentive Utilization Plan.

Elements of the plan include detailed strategies for marketing to professionals, existing businesses, prospective businesses and to the residents themselves. By educating these individuals and entities about the tax incentives we will create a body of knowledge and an information distribution system far more expansive than we could hope to achieve through the efforts of government alone. Through direct mail, workshops and individual contacts we will create a network of educated professionals who will then be able to market the tax incentives to their clients and others.

The plan brings together existing economic development efforts to assist in the successful marketing of the Memphis Renewal Community and to create a system to combine Renewal Community tax incentives with other federal, state and local incentives to create a synergy that will result in even greater advantages than each program alone.

We have identified residents, faith-based and non-profit organizations within the Renewal Community as important target markets. Residents must be educated as to their 'marketing benefit' when completing job applications. They must be aware that they bring with them a 'hiring advantage' and must be able to recognize and articulate that advantage during the job application process. We will work within the community through the non-profit service and faith-based organizations who already have the trust of neighborhood residents.

Finally, we are reminded on a daily basis that one of the key impact elements of the Renewal Community program is its ability to create jobs and thus lower the poverty rate and increase the standard of living for residents. To this end, efforts are underway for close coordination with both the Workforce Investment Agency and the State of Tennessee Department of Human Services, the entity responsible for the State's welfare program.

But our plans do not stop there. We recognize the important synergies between the Renewal Community program and the New Markets Tax Credits program and are currently preparing an application for a Community Development Entity and an allocation of tax credits. We understand that the coordination of all of these economic development tools is critical.

Mr. Chairman, one of our core strategies for attracting capital investment into the Renewal Community revolves around our ability to obtain an allocation of New Markets Tax Credits from the United States Treasury Department. Investors who purchase these credits will be able to deduct 39 cents for every one dollar they invest over a 7-year period and the proceeds from these investments will be available for equity capital, loans and technical assistance in low-income communities.

Let me give you one real example of how all of these programs work together. Onyx Medical Corporation is currently located outside of the Memphis Renewal Community. They need to relocate in order to expand and upgrade their operation, and they understand the unique benefits of moving to the Renewal Community. When they do, renovation or new construction for their new Renewal Community facility will allow them to apply for a commercial revitalization deduction to expense up to one half of their costs. Next, they will be able to purchase even more equipment using the increased section 179 deduction. With the expanded facility and new equipment, they will be able to create jobs for Renewal Community residents and thus take advantage of the employment credit. In addition, they can apply for a tax freeze from our local Industrial Development Board to lower their property tax liability. Combine these incentives with an influx of equity capital from the New Markets Tax Credits program and you have shaped the kind of synergy that Congress intended when it created these programs.

I am aware that Congress is considering legislation that will allow Renewal Communities to modify their boundaries based on Census data from 2000. We wholeheartedly support this effort. The ability to add census tracts to our renewal community will further enhance our success. I am aware also that Congress is considering legislation to expand the number of renewal communities across the country. Again, this is an effort we support. Economic development is critical to every community and these are the kinds of economic development tools that cost the Federal Government very little, but create significant returns for local communities.

Mr. Chairman, distinguished Members of Congress and this Subcommittee, thank you for allowing me the opportunity to share our work. Our city was honored this past January with a visit from HUD Secretary Mel Martinez to announce the first Renewal Community on Dr. King's birthday. Secretary Martinez noted during his visit ". . . there remain many unresolved issues that Dr. King sought to resolve during his life."

We, in Memphis, feel a special obligation in fulfilling the legacy of his life's work . . . to pursue a goal of expanding the equality of economic opportunity for all of our citizens. The Bible says ". . . we shall be transformed by the renewal of our minds . . ." and so shall our city be transformed by the renewal of our communities. Thank you.

Chairman HOUGHTON. Thank you very much Mayor Herenton, I congratulate you on your testimony. My congratulations on your sense of timing. There are few people who testify who have any sense of when the 5 minutes is up.

I would like to ask a quick question and then I'll turn it over to Mr. Coyne and others. I don't see any basic disagreement on that this is a bad program. I think everybody thinks it is a good program. The question is what should we watch for, as we go along here. I'd like to ask anybody here. Steve, have you got any ideas?

Mr. CENTI. Well, in particular, one of the areas, I think, the way the program is structured, the capital gains aspect is something that isn't really part of the Renewal Community right now. There are some limitations out there that I think in the case of trying to stimulate development in our particular area, that's a very important aspect of the requirement for employment that qualifies you for the capital gains exemption. As businesses are just starting in our area, we would like to be able to offer that and keep it flexible enough so that we can bring new development in, which I think will stimulate other developers to be interested in the area.

So, I think that is one particular aspect that needs to——

Chairman HOUGHTON. In other words, you feel that the people who do start, that are successful, will not have that exemption. Is that right?

Mr. CENTI. It is possible. I believe that the requirements for that are a little restrictive right now in terms of the employment goal that is part of it in this point in time, for the Renewal Communities.

Chairman HOUGHTON. Well, if you have any ideas on this as we go along, let us know. That would apply to everyone here. This has got to be a success. It is a great idea, but we want to be on top of it.

Mr. CENTI. One other thing, quickly. I just learned today about some pending legislation, H.R. 3100, that I wasn't aware of before I came to the conference, that deals with the issue that was brought up before about which census was used and the data that was used for applications. I know that, probably over the last 10 years, I know there has been significant change in our community. I believe that, you know, we probably will see that some of the census tracts that were qualified based on the 1990 data have either worsened over the 10 years—I can't imagine in our community, with the changes that have occurred, that the situation has gotten any better. This would provide for the additional capacity to add new census tracts within certain communities, but that is something that I think is very important as well.

Chairman HOUGHTON. All right, well, that is good. I see a note here that this is something which Mr. Quinn and Reynolds and people like that have suggested. It is a good idea.

Any other thoughts on this? Yes, Mr. Johnson.

Mr. JOHNSON. Yes, Mr. Chairman, I just would like to add, sort of, support with what Congressman Jefferson mentioned. The ability to—let me back up for a minute.

In the New Orleans area, we are trying to grow what is called a biotech cluster in New Orleans, to bring value-added jobs to help lift families out of poverty. The Renewal Community where it is located in New Orleans, the biotech company—I won't name the company, but their proposed location is just right outside of the Renewal Community.

So the question, I think, is how do we, sort of, have the ability to expand the Renewal Community boundaries to take in some of those types of companies that tie into our long-range strategy to reduce poverty in Louisiana?

Second, how do we get some support to the CRAs, to help them administer their plans and objectives for the Renewal Communities? We are doing some things in Louisiana to try and get some resources to the CRAs. Overall, to get the initiative off the ground, I think we're going to need some sort of help for the corridors.

Chairman HOUGHTON. Sure. This is what I was referring to, and I think Mr. Centi brought up, H.R. 3100—the whole purpose is to expand the areas designated in the communities based on the 2000 census data. So, I think it will get right to your point.

Any other questions or comments? Yes.

Ms. RAMOS. I would like to add a comment about three things I have heard today. On expanding the Renewal Community areas, we must be the smallest Renewal Community. Ours is four counties in Eastern Kentucky. So, the benefit of that allowance would greatly help us in creating—or adding to the number of people that will benefit from this program, as well as businesses.

The second point I want to make is one of the Members asked questions of the previous panel concerning small businesses and family-owned and -operated mom-and-pop-type stores. In rural Eastern Kentucky, the majority of our businesses are small family-owned businesses that hire their family members as employees. So, a great number of our people are not going to benefit from these tax incentives. If we could make some kind of way for rural areas to allow these kinds of businesses to benefit from more of these incentives, I think it would really raise the enthusiasm we have. That has been a damper on the excitement that we have had, especially when we go to talk to them about these incentives.

Again, the third thing I would say is, like you said, we need some help. Our city and county budgets in our rural communities are economically distressed, and we are having a problem trying to figure out ways on how we are going to create these wonderful marketing programs, how we are going to implement these programs in our counties, hold public meetings. Even just keeping our CRA informed and meet together and things like that are expensive. The time that we consume in working on this program, we just don't have the money to do it with. Again, we knew when we applied for this program that there was not money attached to this. We accepted that up front, but that doesn't take away from the need we have for funds to implement this program. So that would be helpful.

Chairman HOUGHTON. Okay, thank you. Anybody else? And if not—do you have a comment?

Mr. NADEAU. Yes, Chairman. I guess I would like to ventilate the same thing on the Renewal Community on some of the tax incentive programs, that there are some situations they are going to run out before we have a chance to really realize that, and look at that legislation, possible legislation.

I would like to get something back for what we have done. When we heard about the renewal county, we immediately had a meeting the following week. We have organized together as groups, as Subcommittee Members, as representatives of every area across our reservation. One of the things we want to look at, how big and how much of a magnitude do we have on a reservation, what are our major problems, what do we need to do about it? What type of solutions? What type of plan do we come up with?

As we sat and thought about it, we put together our thought process to look at exactly what we are looking at as far as service area. We have had as much as 65-percent unemployment on our reservation. Our average age of our college students is 28 and 30. That means we recycle them through the employment area, back to college, and back out to the unemployment line.

Our average age of students, for instance, that start an employment area is 18 and 19. We cycle those in, they go to college, they come back, they're graduating from college at 28 and 30, and that is at the 2-year and at the 4-year institutional level.

We have lost major industries in our area. So, we are going to have to revitalize those. When we lost a sanitarium, that was over 1,500 jobs. We lost jobs both in our two defense facilities and our data processing. The magnitude of jobs we have lost is like in the 4,000 area. We have 17,000 people; you have 7,000 currently employed. We lost 4,000 people. That is our nucleus, and that is our base. That is a skilled labor force that is sitting, waiting to go.

So, in looking at the incentive program, we are going to take those types of skills, if you will, and resources and market our people. We have already started this process. We are in the first planning stages of our 5-year plan. I just completed, for the industry, a 5-year business plan that will include the incentive programs, thoroughly.

Again, like I said, with those time frames on there, it is going to be hard for us to realize some of those and offer those to the major industries.

We are working with two major industries right now. We have one on-line, we are working with a second one, we are looking at a third one. So, we are looking at bringing those jobs to the reservation for our residents.

Chairman HOUGHTON. Very good. Thanks very much. Do you have a comment?

Dr. HERENTON. Yes. I think, Mr. Chairman, your question was, what should your Subcommittee be looking out for?

Chairman HOUGHTON. Right.

Dr. HERENTON. I would respectfully submit to you, Mr. Chairman, and Members of this Subcommittee, that you should be keying on holding the local communities accountable for tracking results of these incentives through the appropriate data collecting strategies.

I also would like to echo some statements that the young lady made relative to assisting the communities with marketing these incentives to our communities.

Chairman HOUGHTON. Thanks very much. What happened to Mr. Pomeroy? Why don't we just—Mr. Coyne, would you like to——

Mr. COYNE. Thank you, Mr. Chairman.

Any of the panelists can answer this question. The Act of 2000 provided for the tax incentives provision in the Act of 2000, but there were some other provisions in there, like low-income housing, brownfield deduction, school tax-exempt bond financing. My question is, in your plans that have been drawn up or that you are drawing up, are any of the plans going to include school tax-exempt bond financing? Is that going to be a provision of your plans?

Ms. RAMOS. Currently our school board in Owsley County is working with the State of Kentucky to investigate the use of those bonds. They are having a need for—they heat their elementary school with coal burners, and those burners have gone bad—and are having to replace that system and are really interested in expanding natural gas into the school system, which would have to come almost 11 miles from the next town. Our school board is looking at that.

Owsley County also got good news Friday, that one of our 240-acre sites that was recently purchased is declared by the State of Kentucky a brownfield. So, we will be going after some of those funds to develop and use that property as well.

Mr. COYNE. Anyone else?

Mr. NADEAU. Congressman Coyne, yes, we have, and our 5-year plan includes—we have five areas in our plan. We start out with education, business and industry, natural resources, housing administration, and education—I guess I said that twice, but it is included in our plans.

Even though we are a tribal government, tribal organization entity, we are still going to look at every aspect of this, if it is bonds or whatever we do. We need more schools, as refers to our population. It continues to grow, and they do not go anyplace. They do not want to go anyplace. They would rather stay. So, through education, yes, we have to advance that, and we have to look at every opportunity.

Mr. COYNE. Thank you.

Dr. HERENTON. Congressman, we have 160 schools in the City of Memphis and all but 3 qualify, so we are certainly going to use this provision.

Mr. COYNE. Thank you.

Chairman HOUGHTON. Well, I just wanted to summarize what I heard. I mean, I heard that we have to be careful about the capital gains exemption that is there and being used. Second, we ought to think about the expansions through H.R. 3100. The third area is around timing—are we going to be running out before we really get something effectively done? Then, Mayor Herenton said holding the local communities responsible for results.

Are there any other suggestions?

Ms. RAMOS. Small business owners.

Chairman HOUGHTON. What?

Ms. RAMOS. Small family-owned businesses.

Chairman HOUGHTON. Small family-owned businesses, yes.

Ms. RAMOS. Need to have some help on those tax credits.

Chairman HOUGHTON. Right. Well, that was the only exception we had in the work opportunity tax credit, to eliminate the family membership. The difficulty there was the abuse of the system. We will take a look at that again.

Ms. RAMOS. Thank you.

Chairman HOUGHTON. Well, anyway, I really appreciate your spending this time and all this effort. I hope something positive comes out of this.

If there is no further business, the hearing is adjourned.

[Whereupon, at 4:21 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of Diane Bell, Chief Executive Officer, Empower Baltimore Management Corporation, Baltimore, Maryland

INTRODUCTION

Mr. Chairman, Congressman Coyne and Members of the Subcommittee, thank you for the opportunity to share some of our experiences, including successes and lessons learned through developing and managing Baltimore's Empowerment Zone (EZ). Baltimore is a Round One EZ covering 6.8 square miles in three non-contiguous areas of East, West and South Baltimore. The Empower Baltimore Management Corporation (EBMC) is Baltimore's non-profit organization that oversees Title XX funding through its Empowerment Zone grant. The EBMC implements its strategic plan and mission focusing on four critical areas: Business Development (entrepreneurship); Workforce Development (human capital, family support, training, and substance abuse); Quality of Life (physical and emotional environment including land use, public safety, homeownership, etc.); and Community Capacity Building (enhancing the community's ability to affect and sustain positive change). EBMC's Board of Directors is strategically comprised to reflect the diversity of Baltimore's communities and businesses, underscoring our understanding that—critical to our success—is our ability to develop leadership that engaged all the voices and perspectives of our City.

To best achieve this goal, EBMC created a comprehensive initiative to develop sustainable solutions through establishing six 'Village Centers.' Village Centers function as their own 501c3—with sustainability in mind—to best provide leadership, skills development training and community-based partnership development. These community-based institutions also support community capacity building through identifying additional resources and 'asset' assessments, developing and expanding sustainable strategies through partnerships and collaborations while establishing a vehicle that can leverage resources through partnerships with both the City and private developers.

QUALITY JOB CREATION MEANS TRAINING EMPLOYEES

EBMC has linked more than 7,600 Zone residents into jobs across the Baltimore area while creating to date more than 5,100 jobs within the Empowerment Zone. As such, our customers include employers in and outside of the Zone as they relate to linking Zone residents to job opportunities. We have seen that residents gain significant wage increases through direct linkage to an employer that customizes training programs and agrees to hire the resident upon successful completion of the training.

In fact, through wage records we have tracked residents' increase or decrease in wages from the point of job placement, which includes a four-year history. The data indicate that customized training at placement and over time increases wages significantly. In fact, our recent data show a 313 percent wage increase of Zone residents, post-customized training placements. Jobs obtained through customized training, include clean room laboratory technicians, surgical technicians, forklift operators, teachers' aides, etc. These are jobs with career pathways.

Our grant funds and the flexibility of these grant funds allow this focused partnership with employers throughout the City of Baltimore. Flexible dollars have allowed us to serve Zone residents regardless of their "categorical classification," which is often the restriction of other funds.

EMBC's Workforce Agenda includes service to ex-offenders just prior to their release in an effort to break the cycle between repeat crimes and unemployment; no other flexible Federal dollars allow this concentrated focus on low-wage/low-income workers.

ACCESS TO FLEXIBLE CAPITAL IS CRITICAL TO SUCCESS

EBMC's Business Empowerment Center (BEC) implements its business development strategy in partnership with a range of major economic development organizations by providing services to small businesses in the Empowerment Zone and those interested in locating in the Zone. The primary goal is to create and retain jobs by linking Zone businesses to capital, sites, and a trained workforce. The core services are strategically designed to work in tandem with each other, including:

- Technical Assistance
- Access to Capital
- Site Location Assistance
- Strategic Alliance
- Workforce Development
- Linkage to Government Agencies and Private and Public Organizations

SUCCESSFUL CAPITAL PROGRAMS REACH MOST UNDERSERVED

To ensure that there are an increasing number of jobs growing in the Zone that residents can access over a period of time, EBMC has established five small business loan and investment funds. These funds have provided 87 loans and investments, loaned $13.7 million of EZ funds while leveraging $80 million and creating 1,761 jobs.

Focusing on Access to Capital, the BEC serves as a facilitator to link the business' financing needs to either a commercial lender or to one of its contracted partners (loan fund managers managing its five different loan/equity programs). EBMC has established five uniquely different capital programs for those Empowerment Zone businesses that have proven that they are a viable business that can produce a return but have limited or no access to traditional financial institutions. These programs include:

- **Micro Loan Fund**—start-up to small businesses needing $1,500 to $50,000 in capital.
- **Small Business Loan Fund**—businesses needing at minimum $50,000 to a maximum of $500,000 in financing.
- **50/50 Loan Fund**—businesses having already secured a primary source of funding, but have a financing gap, which can be addressed for up to $200,000 (subordinated debt).
- **Brownfield's Loan Program**—businesses developing on environmentally contaminated land in need of financing from $50,000 to $500,000.
- **Equity Investment Fund**—businesses looking for venture capital financing of up to $500,000.

In developing these funding programs, EBMC's intent was not to compete with existing loan programs and financial institutions in Baltimore, but to serve as a financial source of funds for those businesses that have viable businesses—but limited access—to such markets. In addition, the loan funds serve as a potential first source of funds that attract and leverage traditional financing.

Since the implementation of the loan fund programs, with the initial program the 50/50 Loan Program (formerly the 80/20 Loan Program) beginning in 1997, and the latest program, the Micro Loan Program, implemented in 2000, we have achieved the following successes:

- Eighty seven (87) loans made to 79 different businesses in the EZ.
- More than $13 million in loans/investments have been made ($13,774,913).
- More than 80 million in dollars are leveraged from other financing sources generated by the 87 loans.
- More than 1,700 jobs were created by the businesses that received loan funds.

EBMC's loan/equity program is well received by businesses because:

1. *The funds do not compete with, but serve as a compliment to traditional funding sources.*
2. *The fund managers understand the importance of providing "technical assistance" to the borrowers. In the Micro Loan, Small Business, and Equity Fund programs, technical assistance is incorporated in the loan and is a condition of loan approval.*
3. *A commitment must be made to jobs and jobs for Zone residents as a part of the fund agreement.*
4. *After the loan is closed and throughout the life of the business, the BEC, the fund manager and EBMC's Workforce Unit continue to work with the business to provide counsel and support as needed.*

Some of the lessons learned as we developed our loan fund programs include:

- *Money without the provision of technical assistance to the borrower (given the target market of our loan fund) does not adequately address the full needs of the business.*
- *The business must be a viable business and able to succeed and grow in the normal marketplace; often these are businesses or the specific investment need that initially fall below the radar screen of traditional banking institutions.*
- *A commitment to jobs and specific commitments for Zone residents must be negotiated upfront as a part of this new economic development approach in these communities.*
- Our 50/50 Loan Program was initially implemented as an 80/20 Loan Fund Program. Over time we learned that traditional financial institutions required more subordinated debt thus our Loan Program evolved from 80/20 to 65/35 to 50/50.
- In managing five different funds programs, the interest rate charged varied widely. To be consistent between loan programs, EBMC required the fund hold a maximum interest rate as used by the SBA of 2½ to 2¾ over prime on loans for our debt funds.

Some of the trends we see in our Loan Program include:

- *Seventy-one percent of the loans made in the portfolio would not have been closed without the funding from one of the five loan programs (62 out of 87 loans).*
- Eighty-four percent of the companies receiving loans saw an increase in gross revenues the following twelve months after closing the loan. Several examples include:
  a. Manufacturer—Pre-Loan $5.2 million gross revenues; Post-Loan $15 million gross revenues.
  b. Funeral Home—Pre-Loan $501,000 gross revenues; Post-Loan $900,000 gross revenues.
  c. Restaurant—Pre-Loan $550,000 gross revenues; Post-Loan $3.2 million gross revenues.

To illustrate the success of our loan fund program, here are a few examples of borrowers involved in our brownfield's loan program:

1. The development of a mixed-use project resulted in a 36,000 s.f. class A office space and 11 residential units. A portion of the project required remediation related to the removal of underground storage tanks. The borrower was unsuccessful in obtaining conventional financing for the project due to his lack of prior (comparable) development experience and the unresolved environmental issues associated with the project. *As a result of the Brownfield's Revolving Loan Fund (BRLF) providing acquisition financing and assistance to address remediation issues, the Development*

Credit Fund was willing to provide construction financing for $3,717,000 and the developer was able to raise an additional $1,233,000 in historic tax credits. Since completion, the project has been fully leased having brought approximately 110 jobs to the area. The BRLF loan was fully repaid within two years of loan settlement.

2. The EZ BRLF provided a loan of $180,000 to the borrower for the acquisition and partial renovation financing toward an 18-year-old Fells Point auto body repair company. The borrower purchased and renovated an adjacent, formerly vacant warehouse building to house its new custom auto accessories retail operation. Environmental issues surrounding this property are related to previous and current use of paint products and hazardous materials on adjacent parcels of land. The institutional lending community would not provide a loan to the borrower for the expansion parcel due to the facilities use of paint products as its core business and other environmental issues. The borrower raised $40,000 of equity for the project that was sufficient to complete the acquisition and renovation. The expansion of the business resulted in the creation of eight (8) new jobs.

3. The EZ BRLF provided $50,000 site acquisition financing in addition to paying for a portion of the construction costs incurred to build a two-story, 5,500 s.f. new headquarters. The subject site is located in the heavily industrialized Hollins Ferry Road Corridor that contains several nearby sites that have had or are currently holding environmental permits. The new facility provides ample room for growth for the borrower's expanding business. The borrower utilized the EZ BRLF to bypass the stringent lending conditions that were required by the banking community as a result of the site's location in a heavily industrialized neighborhood. The borrower provided the balance of the financing out-of-pocket to complete the project. Since completion, the project created seven (7) new jobs.

4. The EZ BRLF provided a loan of $110,000 to the borrower to assist in the acquisition of a new headquarters building located at 2039 Hollins Ferry Road. The parcel had surface petroleum spillage that had to be remediated per the environmental auditors recommendation. The borrower operates a construction company that assembles the architectural concrete and structural pre-cast components, which constitute the exterior skeleton or structural frame of multi-story commercial projects. Local banks were not particularly interested in the project due to its location and remediation requirements. The borrower was able to increase his employee base by 15 subsequent to the completion of the project.

5. The EZ BRLF funded a loan for $1,000,000 that was utilized for site acquisition and remediation/site work as part of the construction of a mixed-use facility that will contain a 20,000 s.f. office, 27,500 s.f. for production space, and 2,500 s.f. in retail space located on E. Fayette St. The site suffered from the presence of underground storage tanks and surface petroleum spillage issues. The new facility is located near Baltimore's Main Post Office on a 1.7-acre site. The project will create up to 30 new jobs at the new facility. The funding for the project would have been insufficient were it not for the EZ BRLF due to a local bank's unwillingness to finance the remediation and site work for the project.

LAND USE AND HOUSING

Now that we know you can move low-income persons into career paths and that access to flexible capital is critical to growing small businesses, we are shifting our attention to developing the land assets in these neighborhoods. All of EBMC's village centers have completed its land use plan and in one area near the University of Maryland, the community has clearly stated its desire and interest in having the university expand some of its growing market opportunities into its neighborhood. We are helping to fund the feasibility study to determine the economic possibilities of this opportunity.

If this economic asset grows, it will increase job opportunities for residents and housing opportunities for a mixed income neighborhood. In this regard, we will begin to work with the City of Baltimore and national organizations to develop creative solutions in designing and developing a mixed income community.

It is our hope that the persons for the community, whom now have an upward career path, will also now have the opportunity to gain additional assets, including a house with market value.

Utilizing our land use plans, we intend to look for other opportunities to create new markets in the EZ and link our small businesses that are growing to those market opportunities.

Moving forward to achieve our strategic plan would not have been possible without both the tax incentives and flexible funding. Overall to date our activities have leveraged $1.5 billion from both private and public sectors funds.

CLOSING

Mr. Chairman, Congressman Coyne and Members of the Subcommittee, again I appreciate the opportunity to share some of our successes and lessons learned. I believe that our experiences demonstrate the resounding necessity of workforce, business development and diversified land use planning as part of market driven economic renewal strategies for our most underserved communities. Let me again underscore the critical importance of flexible capital for programs like these to succeed. We have learned so much and can continue to do more to lift up our communities and build from strength to strength.

Statement of the Hon. James K. Hahn, Mayor, City of Los Angeles, California

Mr. Chairman and Members of the Subcommittee:

The City of Los Angeles appreciates the opportunity to provide comments on the Federal tax incentives of the Renewal Communities program. We are grateful for the passage of the legislation which authorized the Renewal Community (RC) Program administered by the U.S. Department of Housing and Urban Development.

The Los Angeles Renewal Community program provides a unique opportunity for the City, its businesses, and the targeted communities, to develop a comprehensive strategic approach to long-term economic viability in communities where economic and social distress have long been the order of the day. It provides for a concentrated and collaborative effort by all of the RC Program participants.

The area selected as the Renewal Community abuts the city's Empowerment Zone and exhibits substantial economic distress. According to 1990 Census statistics, approximately 37% of the population lives in poverty, while 14% of its residents are unemployed and 81% of the households are low-income.

The City of Los Angeles has begun to promote the incentives identified in its RC Course of Action. We have identified critical partners and are working on the linkages to create seamless incentive programs to aid businesses and residents. We have also held seminars with businesses and community organizations to promote the incentives in the RC.

The Federal tax incentives of the RC program, combined with the city's own business tax incentives, provide a powerful combination to attract and retain businesses as partners in the RC program. This will help ensure that the residents of the RC will have the maximum opportunity to secure the new jobs created as a result of the RC program.

The Work Opportunity and Welfare to Work Tax Credits will be a powerful incentive to hire RC residents and young people in particular. The city will extensively publicize those benefits to RC residents and businesses throughout the city.

As the City of Los Angeles moves forward in the implementation phase of the Renewal Community program, we recommend that Congress consider the following points that we believe will increase the benefits to RC communities:

- Revise Federal guidelines for the Renewal Community economic incentive program and other economic stimulus programs to allow smaller, non-contiguous, urban areas that suffer from poverty and unemployment to be eligible to receive economic incentives;
- Create incentives to produce low-income housing rental and ownership within Renewal Communities. For example, provide grant preferences or set-asides of low-income housing tax credits, mortgage credit certificates or tax-exempt bond authority for housing produced in a Renewal Community;
- Create a Renewal Community bond financing program similar to the one in Empowerment Zones, or increase the flexibility for local jurisdictions to use existing bonds within the Renewal Community;
- Create Renewal Community tax incentive programs for financial institutions similar to those offered in Empowerment Zones. For example, allow tax-free net interest deductions for lending organizations that provide loans to Renewal Community businesses, and;
- Provide start-up funding to leverage local and private sector funds for the marketing and outreach of the Renewal Communities incentives.

Thank you, Mr. Chairman, for the opportunity to share the City of Los Angeles' views on this important new program. We appreciate your leadership in seeking ways to optimize the benefits of the Renewal Community Program, and I welcome the opportunity to work in partnership with Congress and the Administration as we begin implementation of this new initiative.

Statement of the Hon. Martin T. Meehan, a Representative in Congress from the State of Massachusetts

Mr. Chairman, I appreciate the opportunity to present my views on Tax Incentives for Renewal Communities. My district includes two cities, Lowell and Lawrence, Massachusetts, which have been designated Renewal Communities. The Renewal Community designation, and its associated tax incentives, will assist Lowell and Lawrence to achieve their tremendous economic growth potential. However, I would like to bring to the Subcommittee's attention three key areas in which Renewal Community implementation can be improved to more effectively spur economic growth.

First, the Renewal Community Employment Tax Credit should be made available to qualified businesses of a Renewal Community which hire residents of any and all *other* Renewal Communities. Currently, a qualified business's receipt of the Renewal Community Employment Tax Credit may be restricted to only hiring residents within the same Renewal Community, as opposed to permitting hiring residents of other Renewal Communities. Fixing this restriction would permit a qualified business to hire the residents of another Renewal Community. This fix would be of particular importance to businesses in neighboring Renewal Communities, such as Lowell and Lawrence. Today's workforce frequently crosses municipal and State boundaries for employment opportunities. Therefore, the Renewal Community Employment Tax Credit should certainly apply when the residents of one Renewal Community are employed by a qualified business within another. This technical improvement would expand the employment scope for qualified businesses and make relocation or establishment of a business to an area with multiple Renewal Communities a more attractive option.

Second, designation as a Renewal Community should not come at the cost of all of the incentives associated with designation as an Enterprise Community. Currently, designation as a Renewal Community will only be completed if the area is not, or is no longer, designated an Enterprise Community. Enterprise Communities which were chosen to become Renewal Communities had to give up the former to achieve the latter. In practice, this prevents the newly named Renewal Community from continuing to access the valuable incentives associated with its former Enterprise Community designation. In particular, Enterprise Communities are provided a Public Service Cap Exemption. This exemption allows the designee to use Community Development Block Grant funds for public services in excess of fifteen percent, which is, otherwise, the maximum funding level for such activities. In the case of Lowell, which was an Enterprise Community prior to its Renewal Community designation, it has lost the ability to set aside up to $100,000 in additional Community Development Block Grant funds for public service projects. The Public Service Cap Exemption is especially valuable today due to tight State budgets which reduce available funding for public service activities. Restoring the Public Service Cap Exemption to Enterprise Communities/Renewal Communities will ensure that funding will remain available for important public service activities.

Third, Renewal Communities should have the opportunity to expand to include adjacent areas which also are in need of the designation's associated incentives. In some cases, during the initial boundary-line establishment for Renewal Communities adjacent areas of high economic distress were not included. To fix this, Renewal Communities should be allowed to seek the Secretary of Housing and Urban Development's approval of expansion to include these areas. For example, the Tanner Street area of Lowell is located near the Lowell Renewal Community.

However, it was not included within the Renewal Community's boundary despite its economic challenges including several tax delinquent properties and a Superfund site. Certainly, areas like Tanner Street which are adjacent to Renewal Communities and are in great need of the associated tax incentives to attract economic redevelopment should be considered for expansion.

Mr. Chairman, I appreciate your Subcommittee's time and attention to these matters. I am eager to work together to resolve these issues so that Renewal Communities can realize their full potential.

Statement of Phil Cohn, President, Philip Cohn Group, East St. Louis, Illinois

I would first like to thank the Oversight Subcommittee for the opportunity to submit testimony on these critical community development issues, and commend the Chairman for recognizing the positive impact that tax incentives are having on distressed urban areas like East St. Louis. It is important that the American public learn about the real progress being made in our cities, and that members of Congress continue to examine Federal economic development tools such as tax incentives to allow for continued improvements in future proposals.

Before discussing recent developments I would like provide some background on the city of East St. Louis. This city presents a very good example of the plight of many urban areas since the industrial infrastructure of older American cities began to decline following World War II. East St. Louis is an urban area that at the turn of the nineteenth century was a highly successful city—a city experiencing tremendous growth on the strength of big industry. However, by mid twentieth century, East St. Louis experienced the loss of its industrial base and subsequently the flight of many of its residents to the suburbs followed. These citizens understandably left in search of jobs and a better future. The core of the city began to experience tremendous declines in both residential and business population. The factories closed, leaving large brownfield areas and the neighborhoods that once held stately homes became abandoned, leaving shells that were at once both hazardous to the community yet hospitable to stray animals and homeless citizens. By the latter half of the twentieth century, East St. Louis was a shell of its former self and the scourge of the region, building a national stigma as one of the worst inner city areas in the entire country. This state of decline continued for decades, and conditions have only recently begun to improve thanks to a coordinated effort by State, Federal, and local government working closely with the East St. Louis community.

Today, businesses and citizens are beginning to take a new look at America's cities, they have become in many ways the "new frontier" for business expansion and relocation. One of the most effective and important tools that sparked this revitalization are the various tax incentives that have helped attract investment and reinvigorate America's cities. The Renewal Communities legislation coupled with the Empowerment Zone and Enterprise Communities legislation has played an extremely important in the new process of economic development in the urban cores of our cities.

We have seen tremendous success through the incentives that are available to perspective businesses through these different programs. Businesses are beginning to realize the lucrative economic opportunities that are available to them through incentives that are available in designated RC's, EZ's, and EC's. Being able to attract business entities and the jobs they create is the single most important factor in urban revitalization. Without creating commerce and jobs in impoverished urban areas a turnaround will never be able to materialize. Through job creation and positive economic development we are able to redevelop and revitalize America's urban core.

We have played a part of this process over the past fifteen years in East St. Louis. We have personally had to fight the national image of East St. Louis as an extremely dangerous and blighted city, and frankly until these programs and their corresponding incentives had been put into place we struggled in our attempts to attract large job-creating businesses to properties in East St. Louis. The city had remained in a state of decay and severe blight, with a Central Business District that was for all practical purposes non-functional. What makes this problem even more devastating is that East St. Louis is directly adjacent to St. Louis, Missouri, a stones throw across the Mississippi River. The blight and decay that plagues East St. Louis directly affects the overall economic health of the city of St. Louis and the Metropolitan region as a whole. East St. Louis had become a detriment to the entire region, instead of living up to its potential as a natural extension of the Central Business District of the Metropolitan Area.

We began to see the natural potential of the City of East St. Louis and as we became familiar with the incentives that the city has to offer through its designations, we began to market them to several companies throughout the Nation. While we often first encountered initial skepticism because of the infamous reputation of the city of East St. Louis, we were able to overcome this doubt once we were able to present to companies the significant economic benefits they could realize by utilizing the incentives available. For the first time in decades, we began to see serious interest in locating new facilities in East St. Louis.

One recent example of how these incentives work to attract business recently occurred with a outsource firm to fortune 500 companies. We approached a site selection agency to help market East St. Louis to prospective companies. We conveyed to them the tremendous amounts of incentives available through East St. Louis and its designations, the cornerstone of which being the EZ Wage Credit, which is up to a $3,000 credit per employee that is renewable every year throughout the life of the Zone. This is an extremely important credit to these communities since we believe that one of the most vital components to revitalization of blighted communities is significant job creation. Following suit, the companies that we have been pursuing have had been large employers, for example, companies in the call center industry. Through the help of site selection agencies we identified several companies who were looking to open new facilities in the near future. Upon initial contact to many of these companies the response was the same, they would hardly get past our introduction upon hearing the name East St. Louis before literally slamming the door in our face. However, once given the chance to explain the lucrative incentives and financing programs available they became interested yet skeptical.

Many individuals do not fully comprehend the significant savings that can be accrued through location in a Renewal Community, Empowerment Zone, or Enterprise Community. When they actually see the numbers on paper it seems implausible that the tremendous amount of dollars saved can actually be realized. However, once the programs are explained and the information is backed up through the documentation that HUD and other agencies have provided to the public, these companies begin to show real interest in our community. What these incentives have done is enabled companies to look past the blight and bad reputations of communities and has let them focus on the real economic benefits of location within an EZ, RZ, or EC.

In the case of the outsource firm, they too were initially skeptical about the community of East St. Louis, having heard of its reputation for many years. We utilized every incentive available through the Federal, State, and local governments. We presented to them a package that exceeded their expectations of the kind of incentives that are available. It took numerous correspondences with them and several reiterations that these incentives are available and they would be able to take advantage of them.

They conducted a site visit to East St. Louis and were surprised that though the community is blighted, it did not live up to the “horror stories” that they had heard. Let me reiterate, that without the incentives through the EZ we would never had been able to get them to even consider East St. Louis. During their site visit we set up many meetings with various representatives from Federal and State government to address incentives and programs that would be made available to them. They were indeed impressed by this array of incentives and the commitment on the part of government to actively take a role in the pursuit of bringing their facility on line in East St. Louis.

The firm was so impressed by the package that was put on the table before them they conducted a second site visit, and again the incentives were thoroughly illustrated to them by members of Federal, State, and local government. Our primary competition is a city in sunny Florida. Obviously, without tax incentives East St. Louis would find it difficult to compete. However, because of our incentives and the economic benefits that they bring we have been able to compete with any city across the country. That is why it is absolutely vital for these incentives to be in place; they are creating opportunities where before there had been none. They are working and they will continue to work as long as they are kept in place, and communities like East St. Louis would never be able to begin the process of revitalization without them.

In closing, East St. Louis still has a long way to go, and there is much work to be done. We understand that we are not going to completely reverse decades of decline in a few short years. However, today we see progress, and today we see hope. There is a vision for the future of East St. Louis, and there are many talented, dedicated people working to realize that vision. The Federal Government has played a critical role in this effort through the creation of Renewal Communities, Empowerment Zones, and the many tax incentives they include. We have seen the positive effects of these incentives first hand in East St. Louis, and would endorse the continued and expanded use of such incentives in future legislation.

Thank You.

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