TAX INCENTIVES TO ASSIST DISTRESSED COMMUNITIES

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

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TAX INCENTIVES TO ASSIST DISTRESSED COMMUNITIES

TUESDAY, MARCH 21, 2000

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

The Subcommittee met, pursuant to notice, at 2:01 p.m., in room 1100, Longworth House Office Building, Hon. Nancy L. Johnson (Chairman of the Subcommittee) presiding.

[The advisories announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE CONTACT: (202) 225–7601
March 10, 2000
No. OV–16

Houghton Announces Hearing on Tax Incentives to Assist Distressed 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 tax incentives to assist distressed communities. The hearing will take place on Tuesday, March 21, 2000, in room B–318 Rayburn House Office Building, beginning at 2:00 p.m.

Oral testimony at this hearing will be from invited witnesses only. Invited witnesses will include a representative of the U.S. Department of the Treasury, representatives of State and local governments, and community development experts. 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:

The Omnibus Budget Reconciliation Act of 1993 (OBRA 93) authorized the U.S. Department of Housing and Urban Development and the U.S. Department of Agriculture to designate 10 empowerment zones (6 urban, 3 rural, and 1 Indian reservation) and 100 enterprise communities (65 urban, 30 rural, and 5 Indian reservations) based on certain eligibility requirements, including specified poverty rates and population and geographic size limits. Qualified businesses operating in these designated areas are eligible for specified tax incentives.

For qualified businesses operating in these empowerment zones, the following tax incentives were established: (1) a 20 percent wage credit for the first $15,000 in wages paid to a zone resident who also worked within the zone, (2) an additional $20,000 limit for expensing under section 179, and (3) special tax-exempt financing. Qualified businesses operating in enterprise communities were eligible for the tax-exempt financing but not the wage credit or additional section 179 expensing limit.

The Tax Relief Act of 1997 (97 Act) established two more urban empowerment zones (effective January 1, 2000) in which qualified businesses would be eligible to use each of the tax incentives created in OBRA 93. The legislation also created 20 additional urban and rural empowerment zones (effective January 1, 1999) in which qualified businesses could utilize the increased 179 expensing limits and the tax-exempt financing, but not the wage credit.

Portions of the District of Columbia were designated an enterprise community in 1994 pursuant to OBRA 93, and qualified businesses were eligible for tax-exempt financing. The 97 Act designated a District enterprise zone which included the enterprise community designated in OBRA 93 and several other tracts. Qualified businesses operating in the newly designated enterprise zone were eligible for each of the tax incentives created in OBRA 93 for empowerment zones. In addition, the 97 Act provided for a 0 percent capital gains rate upon the sale of qualified assets held for five years or longer in the District and a $5,000 credit for first-time home buyers in the District.

Reps. J.C. Watts, Jr. (R–OK) and James M. Talent (R–MO) have introduced H.R. 815, the "American Community Renewal Act of 1999," and Rep. Tom Davis (R–VA) is developing a proposal for the District of Columbia. The Administration has proposed a "New Markets" incentive, extending and expanding the empowerment zone incentives, and expanding specialized small business investment company incentives.

In announcing the hearing, Chairman Houghton stated: "The challenge of revitalizing distressed communities is critically important. I know this first hand because the current economic boom hasn't reached every community in New York's Southern tier. We can't afford to leave anyone behind. We need to take a good look at how well tax incentives in current law are working, as well as proposals to expand incentives to help the communities which need it most. "

FOCUS OF THE HEARING:

The hearing will examine the operation of current law tax incentives for distressed communities, as well as several proposals.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, with their name, address, and hearing date noted on a label, by the *close of business*, Tuesday, April 4, 2000, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Oversight office, room 1136 Longworth House Office Building, by close of business the day before the hearing.

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. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, typed in single space and may 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. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press, and the public during the course of a public hearing may be submitted in other forms.

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.

NOTICE CHANGE IN LOCATION

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE CONTACT: (202) 225–7601
March 15, 2000
No. OV–16-Revised

Change in Location for Subcommittee Hearing on Tax Incentives to Assist Distressed Communities Tuesday, March 21, 2000

Congressman Amo Houghton (R–NY), Chairman of the Subcommittee on Oversight of the Committee on Ways and Means, today announced that the Subcommittee hearing on tax incentives to assist distressed communities scheduled for Tuesday, March 21, 2000, at 2:00 p.m., in room B–318 Rayburn House Office Building, will now be held in the main Committee hearing room, 1100 Longworth House Office Building.

All other details for the hearing remain the same. (See Subcommittee press release No. OV–16, dated March 10, 2000.)

Chairman HOUGHTON. Ladies and gentlemen, we are going to begin the hearing.

Last year in presenting proposals from the Second Bipartisan Congressional Retreat to the House Rules Committee, one of my colleagues recalled a phone call Bill Hudnut received when he was first elected to Congress. Maybe some of you have heard this story. I think it is a pretty good one.

The first call Hudnut received was from a woman in his district complaining about trash collection. “Ma’am,” he said, “I have just been elected to serve you in the Congress of the United States. Don’t you think you should call the sanitation department?” Her reply was “I really didn’t think I should start that high.” So it is a humbling reminder that many of the matters that people care about most do not fall within the purview of the United States Congress.

Even so, many of the decisions we make here in Congress, and here in this committee, have far-reaching implications in people’s daily lives. The first purpose of the Internal Revenue Code is to collect revenue to finance the services provided by the Government, but the tax code is also used to help people buy homes, save for their retirement and put their children through college.

In recent years, we have tried to use the tax code to help distressed communities. The Omnibus Budget Reconciliation Act of 1993, OBRA 93, authorized the designation of 10 empowerment zones and 100 enterprise communities based on certain eligibility requirements. Businesses operating in these designated areas are eligible for special tax incentives. The Tax Relief Act of 1997 established two more urban empowerment zones and 20 additional urban and rural empowerment zones.

Portions of the District of Columbia were designated an enterprise community in 1994 under OMBRA 93, and the 97 Act designated a District enterprise zone which included the enterprise community designated in OBRA 93 and several other tracts.

Building on this experience, Representatives J.C. Watts, Jr. from Oklahoma, and James M. Talent from Missouri have introduced H.R. 815, the "American Community Renewal Act of 1999." The Administration has proposed a "New Markets" incentive extending and expanding the empowerment zone incentives and expanding specialized and small business investment company incentives.

There are a number of other proposals to help communities that have merit. Mr. Portman and Mr. Becerra have introduced a bill to encourage the donation of computers to schools. Tony Hall and I have introduced a bill to encourage restaurants to donate food to food banks. Mr. Crane and Mr. Rangel have introduced legislation to provide incentives for investment and job growth in Puerto Rico. Clay Shaw and John Lewis have introduced the Historic Homeownership Assistance Act, which would create a credit for rehabilitating owner-occupied homes in Federal, State and local historic districts. We will be hearing about several of these proposals today.

Much of what is needed in distressed communities—improved public safety and better schools—is primarily the responsibility of State and local government. However, there are ways that the Federal Government can help. There are ways we can help through the tax code. Many communities throughout our Nation are reexperiencing revitalization. Some are succeeding with help from the Federal Government and some are going it alone. We need to know more about what is working and we need to know how effective current tax incentives are and we need to give serious consideration to the thoughtful proposals that are here before us today.

I would like to recognize now the Ranking Democrat, Mr. Coyne for his opening statement.

Mr. COYNE. Thank you, Mr. Chairman.

Thank you for holding today's hearing on tax incentives to assist distressed communities throughout the country. It is critical that Congress periodically review the progress being made to reverse the years of economic decline many of our urban and rural areas face. This evaluation must be made in the context of overall growth of the national economy.

In the 14th Congressional District in Pennsylvania, some neighborhoods are still suffering from the downturn in the manufacturing and steel industries that began in the 1970s. To help these communities, it is vital that the Federal Government assist in attracting new capital to these distressed areas.

I consider environmental cleanup and redevelopment of old, abandoned industrial sites a critical issue for our cities. The 400,000 brownfield sites scattered across the country have become public health and pollution problems. They also constitute serious impediments to the economic health of the surrounding communities.

I am co-sponsoring legislation with Congressman Weller to expand the existing Internal Revenue Code Section 198 provision that allows expensing of remediation costs at brownfield sites. The legislation would also extend the expiration date of this provision.

The President's New Market Initiative, which we are also considering today, would address one of the largest barriers to rebuilding communities, the lack of capital for businesses in distressed areas. The proposal would provide a tax credit for equity investments in community development. I support this legislation and believe that the initiative would attract significant new capital to many distressed communities.

The President also proposed improvements in the Empowerment Zone and Enterprise Community Tax Program. The proposal would extend the EZ and EC program, provide enhanced tax incentives and designate additional zones in communities for assistance. The EZ/EC Program has a proven record of success and continues to have strong support.

I hope that we can work together to pass bipartisan legislation in these areas. It is important that we act promptly to help our distressed communities. All Americans should be able to share in the longest economic expansion in United States history.

Once again, I would like to commend the Chairman for calling these very important hearings.

Chairman HOUGHTON. Thank you, Mr. Coyne.

Would anyone else like to have an opening statement? Mr. Watkins?

Mr. WATKINS. Thank you, Mr. Chairman, for having these oversight hearings on community renewal and also the New Market Initiative.

I have long devoted my public life to economic growth and job development. A lot of the rural areas in this country have never recovered from the Great Depression. We have literally the highest unemployment, the highest underemployment, the lowest educational level in many of those areas and also out migration. The out migration has caused many of these small communities to deteriorate but also, they have gone into the larger cities, and it has become a problem also in the big cities.

We have not been able to address that over the years and I think the Empowerment Zones and the Enterprise Communities have begun to do that a little bit in some respect in the economic development out there because a lot of various things are going on. One of the things I want to do today is hopefully make sure we have equity for the rural economically depressed areas like I grew up in as a boy where my family had to leave three times to go from southeast Oklahoma to California in search of a job before I was 10 years of age. It destroyed my family.

One of the things I have tried to do in Congress is to have set asides for the rural areas so we wouldn't have to compete against Chicago or some of the larger cities, but we would have opportunities in the small, rural areas.

Also, it is my understanding that under the community renewal, the tax incentives priority would be given to the Empowerment Zones and Enterprise Communities. I want to make sure we have clarification of that today to see if we could make sure they are designated instead of going around different areas. There might be more than just those but also to designate those so that they would not be lost in the shuffle.

Thank you, Mr. Chairman.

Chairman HOUGHTON. Thank you.

Mr. Weller?

Mr. WELLER. Thank you, Mr. Chairman.

I want to commend you for holding this hearing as we work to find ways to revitalized plighted areas, distressed areas in our country, both urban, suburban and rural.

I wanted to draw attention, as Mr. Coyne has, to an issue that I believe is an issue we should address as we look at working in a bipartisan way with the Administration on the President's New Markets Initiative as well as with the Republican Congress' Community Renewal Initiative and combining those two packages.

I want to focus on the issue of brownfields, an issue which I believe is both an economic development as well as an environmental issue, particularly as regards the whole concept of smart growth and bringing urban sprawl under control.

The whole goal of addressing the brownfields issue is to revitalize as well as to recycle old industrial parks as well as that abandoned gas station on that strategic corner in a community that people always wonder why is it never developed. We can all think of that gas station in many of our communities.

It is estimated that there are as many as 425,000 brownfields throughout this country. The U.S. Conference of Mayors recently surveyed 210 of their cities and estimated if they can clean up, recycle and reuse the existing brownfields within those 210 cities, they could bring in an additional $2.4 billion in tax revenues and create $550,000 new jobs in those cities.

I represent part of the city of Chicago and it is estimated that in the Chicago land area there is an estimated 2,000 brownfields. The Conference of Mayors points out that revitalizing those brownfields would create 34,000 jobs in the Chicago metropolitan area. Clearly revitalizing brownfields is good for the environment, helps bring urban sprawl under control and also creates jobs.

In 1996 and 1997 many of us worked in a bipartisan effort along with Mayor Richard Daley of Chicago to come up with a tax incentive to attract private investors to purchase these old industrial parks and commercial sites that required environmental cleanup and to recycle them, clean them up and put them back to work hiring people.

We successfully obtained in the 1997 Balanced Budget Act a provision which provided a brownfields tax incentive, essentially allowing private investors to fully deduct or expense the cost of cleanup but it was in a targeted way. Unfortunately, that provision only benefitted low income census tracts, empowerment zones and a limited number of brownfields throughout this country.

Time and time again I am often asked by community leaders and those who want to clean up the environment, those who want to revitalize distressed areas and rural areas, suburban areas as well as middle class communities, why this provision is not available for those communities as well.

It is estimated that there are over 400,000 sites nationwide that today are left out under the current provision. I believe, as I know Mr. Coyne does, Ms. Johnson and others, who joined with me in introducing H.R. 4003 which expands the current brownfields expensing provision, removes that targeting which will allow rural, suburban as well as middle class communities to benefit from this important economic revitalization as well as environmental initiative.

I am pleased this legislation has the co-sponsorship of a large number of members of the Ways and Means Committee in a bipartisan effort and my hope is that this provision can be included as part of a community renewal/new markets initiative that we can work together in a bipartisan way.

I commend you for holding this hearing, Mr. Chairman. Mr. Secretary, I look forward to working with you and discussing this during the hearing today.

Chairman HOUGHTON. Thank you, Mr. Weller.

Mr. Hulshof?

Mr. HULSHOF. Thank you, Mr. Chairman.

Briefly, I want to say I want to associate myself with the remarks of Mr. Watkins from Oklahoma. If you want to look at a sector of our economy that has not shared our Nation's economic prosperity, one need look no further than rural America.

Chairman HOUGHTON. Without objection.

Mr. HULSHOF. I will yield the balance of my time.

Chairman HOUGHTON. Thank you.

I would like to call Mr. Talisman, the Acting Assistant Secretary for Tax Policy, U.S. Department of the Treasury. We are honored to have you here.

STATEMENT OF JONATHAN TALISMAN, ACTING ASSISTANT SECRETARY FOR TAX POLICY, U.S. DEPARTMENT OF TREASURY

Mr. TALISMAN. Thank you very much.

I am pleased this afternoon to have the opportunity to discuss with you the Administration's program of tax incentives designed to foster the revitalization of economically disadvantaged American communities.

There has been substantial bipartisan agreement on the need to assist these communities. We very much appreciate your holding this hearing and look forward to working with all of you to find solutions to address needs in these communities.

As you know, despite the unprecedented prosperity that is evident in so many places in the United States, not all communities have shared in this new affluence. In some communities, good jobs are still scarce, construction is rare and the infrastructure, including schools, is aged.

The Administration believes that in this period of general prosperity, no American community should be left behind. Accordingly, we are dedicated to working on a bipartisan basis to provide incentives to the private sector to bring economic opportunity to residents of inner cities and less affluent rural communities.

Let me be clear, we view tax policy as one, but by no means, the only tool at our disposal in achieving this important goal. To be most effective, tax measures must be integrated into a broader program designed to foster community development. Thus, in conjunction with targeted tax incentives, the Administration has proposed other initiatives to ensure that all communities have access to the tools that are critical to success in the new economy.

The tax code already has several measures to aid economically disadvantaged communities. As discussed in greater detail in my written testimony, these include tax benefits for the 135 urban and rural empowerment zones and enterprise communities that have been designated since 1993, a special set of incentives designed to foster the redevelopment of the District of Columbia and the low income housing credit which has played a vital role in helping working poor people to find affordable, decent housing while revitalizing communities.

The Administration's fiscal year 2001 tax proposals, totalling about $17 billion over ten years, seek to build on these programs and to leverage the progress that has already been made in revitalizing America's economically disadvantaged communities.

For example, the New Market Tax Credit would attract capital to lower income areas by providing a subsidy to investors. Specifically, it would help to attract $15 billion in equity capital to community-based financial institutions which in turn would invest these funds in their communities spurring the creation of higher quality jobs and equally important, building lasting links to the new economy.

High technology and service firms at the heart of the new economy have generally sought to locate near other similar enterprises so that they may tap a common pool of customers, employees and other resources. The New Market Tax Credit would provide incentives for the businesses of the new economy to locate in distressed areas, even if few such enterprises are already operating in these communities.

The credit is specifically designed to further the efforts of community-based financial institutions in promoting economic revitalization while allowing these entities to make the on-the-ground decisions concerning where the need for capital is greatest. Such institutions, including a wide variety of existing or newly formed community development banks and venture funds, would apply to the Treasury for authorization to issue stock with respect to which the investors could claim a tax credit equal to approximately 25 percent of the investment in present value terms. The credit would be claimed in five equal installments, each equal to 6 percent of the original investment during the first five years of investment.

We greatly appreciate the active leadership of Mr. Rangel, Mr. LaFalce, Ms. Velazquez, as well as Senators Rockefeller, Robb, Sarbanes, Kerry and others in working over the last 12 months to move this proposal forward.

The Administration would also like to see a further expansion of the Empowerment Zone Program. The President's fiscal year 2001 budget would extend empowerment zone status for the existing 31 designated zones through 2009. At present, these designations expire as early as 2004. Furthermore, the wage credit rate would remain at 20 percent in all zones through 2009. The current set of incentives available in some zones does not include the wage credit, while in other zones, this credit phases out over the final three years of designation. Businesses in all 31 zones would be eligible to expense rather than to depreciate over time an additional $35,000 in qualified investment property. Finally, ten new empowerment zones would be authorized, eight in urban communities and two in rural areas.

Affordable rental housing remains in extremely short supply in many communities. Paradoxically, general prosperity can actually exacerbate the shortage of high quality, affordable housing for low income workers. For example, in the greater Washington area as in Silicon Valley, the problem of housing has become acute as the creation of new jobs has led to a substantial increase in the cost of housing. Many low income workers must either contend with the inadequate housing stock often found in central cities or reside so far from their jobs that the cost of commuting measured in both time and money is staggering.

The per capital credit allocation of $1.25 used to determine the annual State limit was set in 1986. Since that time, inflation has eroded the value of the cap on low income housing credit allocations by 45 percent. Most State housing agencies receive qualified proposals for far more low income rental housing than they can support with the available credit.

The Administration, is proposing an increase in the cap to $1.75 per capita and subsequent indexing of this amount for inflation, a step that has also been proposed by Congress. These measures will subsidize the construction and rehabilitation of additional low income housing units while allowing the State agencies to still choose the projects that best meet local needs. We appreciate the efforts of Ms. Johnson and the co-sponsors of HR 2400, including Mr. Watkins, Mr. Frost, Mr. Ballenger, Mr. Barcia and Mr. Isakson, as well as Senator Mack and the 75 Senate co-sponsors of S.1017

Another set of proposals will ensure access to computers and the Internet so that the economically disadvantaged may participate fully in America's economic, political and social life. The Administration believes that we must make access to computers and the Internet as universal as is the telephone today in our schools, libraries, communities and homes.

To bridge what the Administration sees as this digital divide, we have made several proposals, including an enhancement of the current law temporary deduction for corporate donations of computer equipment to schools and other institutions in disadvantaged communities, a tax credit for certain corporate sponsorship payments to schools, libraries and technology centers in empowerment zones and ECs and a credit to employers who provide training in technology skills and other basic education to educationally disadvantaged workers.

The budget also includes proposals to improve the specialized small business investment companies to make them more workable and also to reformulate the economic activity tax credit under Section 30(a) which will encourage increased economic redevelopment in Puerto Rico.

Let me now turn briefly to the renewal community proposal which has been made by Mr. Watts, Mr. Talent, Mr. Davis and also was passed as part of the budget bill last year. Like the authors of that proposal, the Administration favors increased expensing authority as a means to encourage capital formation in disadvantaged areas, expensing authority to encourage the remediation of environmental hazards, a wage credit to spur the hiring of residents of distressed communities and measures to encourage saving by low income workers.

We are eager to continue working on a bipartisan basis with members of the committee as well as Mr. Watts, Mr. Talent, Mr. Davis and the rest of the Congress in ensuring through the use of targeted tax incentives and other complementary measures that all American communities share in the Nation's general prosperity.

While we have certain concerns with the renewal community proposal including the zero rate capital gains provision and the family development accounts, we would like to work with the Congress to develop a package on a bipartisan basis that can achieve these goals.

We look forward to working with you and the committee to craft a set of measures that will help reach our common goal of promoting the revitalization of America's most economically disadvantaged communities as efficiently and quickly as possible. I want to thank you and the members of the subcommittee for providing a chance today to discuss these important issues. I hope that we can work together to ensure that all Americans share in the current prosperity and have even greater opportunity in the future.

Thank you and I would be happy to respond to questions.

[The prepared statement follows:]

Statement of Jonathan Talisman, Acting Assistant Secretary for Tax Policy, U.S. Department of the Treasury

I am pleased to have the opportunity this afternoon to discuss with you the Administration's program of tax incentives designed to foster the revitalization of economically disadvantaged American communities. I would like to begin by acknowledging the efforts of the Chair, the Speaker, other Members of Congress from both parties, and the panelists this afternoon, all of whom have sought to provide assistance to America's economically distressed communities.

Despite the unprecedented prosperity that is evident in so many places in the United States, not all communities have fully shared in this affluence. In some communities, good jobs are still scarce, new construction is a rarity, and infrastructure, including schools, shows its age. The Administration believes that, in this period of great prosperity, no American communities should be left behind. Accordingly, we are dedicated to insuring that the residents of inner cities and less affluent rural communities, just like those Americans living in the Silicon Valley or along the Dulles Corridor, have full access to the opportunities which symbolize the promise of the new economy.

The Administration's budget proposals include almost $17 billion in new tax incentives over ten years to ensure that we satisfy this commitment. We view tax policy as one, but by no means the only, tool at our disposal in achieving this important goal. To be most effective, tax measures must be integrated into a broader program designed to foster community development. Thus, in conjunction with targeted tax incentives, the Administration has proposed major initiatives on the appropriations side to insure that all communities have access to the tools that will be critical to success in the new economy. For example, the Administration has proposed to expand the Community Development Financial Institutions Fund to bolster the capacity of specialized, locally-based financial institutions serving economically disadvantaged areas, and has launched BusinessLINC to provide smaller firms in these communities the know-how and business opportunities enjoyed by their larger counterparts. Other initiatives in the President's FY2001 budget would fund community technology centers train teachers in the use of computer and internet technology, and encourage private-public partnerships to provide basic banking services to individuals and businesses in economically-disadvantaged areas.

Current Law

Investment, by both the private and public sectors, is the key to economic development. Only with investment by the public sector in infrastructure and the private sector in businesses can real economic opportunity be created. Since 1993, the Administration, together with Congress, has sought to direct both types of investment to disadvantaged communities through the designation of Empowerment Zones and Enterprise Communities. Since 1993, 125 communities have been selected on the basis of their comprehensive strategic revitalization plans to receive special tax incentives and other resources.

Empowerment Zones

The Omnibus Budget Reconciliation Act of 1993 authorized a demonstration project under which nine Empowerment Zones, six in urban areas and the remainder in rural areas, were designated through a competitive application process. State and local governments nominated distressed geographic areas, which were selected based on the strength of their strategic plans for economic and social revitalization. The incentives available in the Empowerment Zones designated under the 1993 Act remain available through the end of 2004.

By virtue of this designation, businesses located in these zones became eligible for a number of tax incentives specifically designed to encourage new businesses and business growth in these areas of acute need. These include a wage credit, preferential tax treatment for certain depreciable property, and special tax-exempt bond financing.

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. 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 good jobs and opportunities for self-sufficiency for zone residents.

Further incentives are intended to encourage investment machines, computers and other tangible business property. Empowerment Zone businesses are allowed to expense the cost of property up to an additional $20,000 above the amounts generally available under Section 179 of the Internal Revenue Code, rather than depreciate such property over time. This additional expensing lowers the cost of the capital investment necessary to support the creation of high-paying jobs in the new economy.

Finally, the original legislation permitted the issuance of a new class of tax-exempt private activity bonds to provide subsidized financing to projects in Empowerment Zones. By lowering the cost of capital, tax-exempt financing makes projects that would not otherwise be undertaken by the private sector economically viable, leading to the creation of new jobs in disadvantaged areas.

The landmark 1993 legislation also made these zones eligible for a variety of programs administered by other agencies, including the Department of Housing and Urban Development and the Small Business Administration. These programs complement the tax incentives, and contribute further to the revitalization of these economically disadvantaged communities.

The Empowerment Zone legislation has been expanded during recent years. The Taxpayer Relief Act of 1997 provided for the designation of two additional Empowerment Zones. The Act also authorized the designation of twenty "Round II" Empowerment Zones using slightly expanded eligibility criteria. Although businesses in the "Round II" Empowerment Zones may not claim a wage credit, the available tax incentives are otherwise very similar to those provided in the original nine zones and remain, under current law, in place through the end of 2008.

Since environmental hazards often pose a major obstacle to the privately-financed revitalization of both urban and rural areas, the 1997 legislation provided an additional incentive to help private firms clean up such contamination. Under this provision, businesses in Empowerment Zones may expense, and therefore recover immediately for tax purposes, the costs of remediating certain environmental hazards in the soil and ground water. This favorable tax treatment, which is also available in some other economically depressed areas, reduces the expected return necessary to justify investments that often benefit the entire community.

Enterprise Communities

In addition to the Empowerment Zones, the Omnibus Budget Reconciliation Act of 1993 also provided for the designation of 95 Enterprise Communities, at least thirty-five of which would be located in rural areas. Businesses in these communities are entitled to the same favorable tax treatment of environmental remediation expenses and tax-exempt financing benefits as those in the Empowerment Zones.

District of Columbia Incentives

A special set of incentives, bearing a broad resemblance to those provided to the Empowerment Zones, were enacted in 1997 to foster the redevelopment of the District of Columbia. The Taxpayer Relief Act of 1997 included tax incentives for both residents and business to locate in the District of Columbia. A $5,000 income tax credit for first-time home purchasers was intended to attract new homeowners to the District. A second set of incentives, similar to those provided to the original nine 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 only for property purchased through the end of 2000, subsequent legislation in 1999 extended the incentive through the end of 2001.

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 D.C. Zone. With certain minor adjustments, businesses in the Zone may claim the same wage credit, expensing of certain capital investment, expensing of environmental remediation costs, and tax exempt bond financing, as businesses in the original nine Empowerment Zones. In addition, capital gains realized from the sale of certain assets are excludable from the income of the seller, whether a business or individual. 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.

Native American Wage Credit

Unfortunately, many residents of Native American communities continue to struggle economically, even during these times of prosperity. The Indian Wage Credit provides a powerful incentive for job growth in these communities. Employers may claim an Indian employment credit equal to 20 percent of 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 aggregate amount of qualified wages and health insurance costs may not exceed $20,000 per person per year. This incentive is now available through 2003.

New Proposals

The President's FY2001 budget proposals, the Administration seeks to leverage the progress that has already been made in revitalizing America's economically disadvantaged communities through the provision of another $17 billion in targeted tax incentives over the next decade. These measures will allow more communities to benefit from the investment that is so important in a technology-driven economy, while offering an innovative approach to the task of attracting patient equity capital to businesses in economically disadvantaged areas.

New Markets Tax Credit

An important priority is the New Markets Tax Credit, a part of the President's broader New Markets Initiative. This tax incentive would help attract $15 billion in equity capital to community-based financial institutions which, in turn, would invest these funds in their communities, spurring the creation of high-quality jobs and, equally important, building lasting links to the new economy.

High technology and service firms at the heart of the new economy have generally sought to locate near other similar enterprises, in places like the Silicon Valley and the Dulles Corridor, so that they may tap a common pool of customers, employees and other resources. Thus these enterprises tend to be highly concentrated geographically, and often not in lower-income areas. The New Market Tax Credit would attract capital, and therefore high-growth industries, to lower-income areas by providing a subsidy to investors. This temporary subsidy will, at least in part, compensate investors for the additional costs involved in establishing operations in locales which have yet to benefit from the strength of the U.S. economy over the past decade and where the presence of other fast-growing firms may therefore be limited.

The New Markets Tax Credit is specifically designed to further the efforts of community-based financial institutions in promoting economic revitalization while encouraging these entities to make the "on the ground" decisions concerning where the need for capital is greatest. Such institutions -including a wide variety of existing or newly-formed community development banks and venture funds -would apply to the Treasury Department for authorization to issue stock (or other equity interests) with respect to which the investors could claim a tax credit equal to approximately 25 percent of the investment, in present value terms. The credit would be claimed in five equal installments, each equal to 6 percent of the original investment, during each of the first five years of investment.

Community development entities selected for a credit allocation would be required to invest the leverage funds by taking equity stakes in, or providing loans to, businesses located in low-income communities. The required investments could be made in a wide range of commercial ventures, the basic requirement being that the business conduct an active trade or business in one or more low-income communities. The selected community development entities themselves would decide which local commercial ventures are likely to produce the greatest social and financial return.

We greatly appreciate the active leadership of Mr. Rangel, Mr. LaFalce and Ms. Velazquez, as well as Senators Rockefeller, Robb, Sarbanes, Kerry, Kennedy and Daschle, in working over the last twelve months to move New Markets Tax Credit legislation forward. Our current budget proposal would, relative to the original design, more than double the amount of capital with respect to which credits could be allocated, raising this amount from $6 billion to $15 billion by providing $3 billion per year from 2001 through 2005.

Empowerment Zones

In addition to the New Markets Tax Credit, the Administration would like to see a further expansion of the Empowerment Zone program, as well as movement towards standardization of incentives across the already-designated zones.

The President's FY2001 budget proposal would extend empowerment zone status for the existing thirty-one designated zones through 2009. At present, these designations expire as early as 2004. Furthermore, the wage credit rate would remain at 20 percent in all zones until 2009. The current set of incentives available in some zones does not include the wage credit, while in other zones this credit phases out over the final three years of designation.

Businesses in all thirty-one zones would be eligible to expense, rather than to depreciate over time, an additional $35,000 in qualified investment property. Under current law, this additional expensing authority in Empowerment Zones is limited to $20,000.

Finally, ten new Empowerment Zones would be authorized, eight in urban communities and two in rural areas. During the period 2002 through 2009, businesses located in these zones would be eligible for the same tax incentives that are available to businesses in the other 31 Empowerment Zones, including the expensing of qualified environment remediation costs and certain tax-exempt financing benefits.

Low-Income Housing Credit

The low-income housing credit has played a vital role in helping working poor people to find affordable, decent housing and in helping to revitalize low-income communities. But affordable rental housing remains in extremely short supply in many communities. Paradoxically, general prosperity can actually exacerbate the shortage of high-quality, affordable housing for low-income workers. Here in the greater Washington area, as in Silicon Valley and the areas surrounding New York City, the problem has become acute as the creation of new jobs has led to a substantial increase in the cost of housing. Many low-income workers must either contend with the inadequate housing stock often found in central cities or reside so far from their jobs that the cost of commuting, measured in both time and money, is staggering. To help address this need, the Administration is proposing an expansion of the low-income housing credit. We also appreciate the leadership on this issue of Mrs. Johnson, Mr. Rangel, and the co-sponsors of H.R. 2400, including Mr. Watkins, Mr. Frost, Mr. Ballenger, Mr. Barcia, and Mr. Isakson.

This tax credit is allowed in annual installments over 10 years for qualifying low-income rental housing, which may be newly constructed or substantially rehabilitated residential units. In order to qualify for the credit, the building owner must receive an allocation from a state or local housing authority, which is counted towards an annual limit for each state.

The per capita credit allocation of $1.25, used to determine the annual state limit, was set in 1986. Since that time, inflation has eroded the value of the cap on low-income housing credit allocations by 45 percent. Most state housing agencies receive qualified proposals for far more low-income rental housing than they can support with available credits. The Administration is proposing an increase in the cap, to $1.75 per capita, and subsequent indexing of this amount for inflation. These measures will subsidize the construction and rehabilitation of additional low-income housing units while allowing the state agencies to choose projects that best meet local needs.

Digital Divide

Access to computers and the Internet—and the ability to use this technology effectively—are becoming increasingly important for full participation in America's economic, political and social life. Unfortunately, unequal access to technology by income, educational level, race, and geography could deepen and reinforce the divisions that exist within American society. The Administration believes that we must make access to computers and the Internet as universal as the telephone is today—in our schools, libraries, communities, and homes.

In recognition of the importance of technology in the new economy, the President's FY 2001 Budget includes a series of tax incentives to insure that residents of disadvantaged communities are able to develop the skills that will be essential for labor market success in the coming years. This initiative, to help "bridge the digital divide," consists of three components. The first is an enhanced deduction for corporate donations of computer equipment to schools and other institutions in disadvantaged communities. Such donations will help to provide these institutions the tools necessary to train residents in new technology. The second is a tax credit for certain corporate payments to schools, libraries and technology centers in Empowerment Zones and Enterprise Communities. This credit will help insure that innovative educational programs, many with a focus on technology, flourish in communities undergoing economic and social revitalization. The final incentive is a tax credit for certain employer-provided education programs in workplace literacy and basic computer skills. This credit is vital in ensuring that our least-educated workers obtain the basic skills necessary for success in the new economy.

The first measure, designed to encourage corporate donations of computer equipment, builds upon and extends a similar provision of the Taxpayer Relief Act of 1997. Under the 1997 legislation, a taxpayer is allowed an enhanced deduction, equal to the taxpayer's basis in the donated property plus one-half of the amount of ordinary income that would have been realized if the property had been sold. This enhanced deduction, limited to twice the taxpayer's basis, was made available to donors for a limited three-year period. Without this provision, the deduction for charitable contributions of such property is generally limited to the lesser of the taxpayer's cost basis or the fair market value. To qualify for the enhanced deduction, the contribution must be made to an elementary or secondary school. The Administration proposal would extend this special treatment through 2004, as well as expand the provision to apply to contributions of computer equipment to a public library or community technology center located in a disadvantaged community.

The second measure is a 50 percent tax credit for corporate sponsorship payments made to a qualified zone academy, public library, or community technology center located in an Empowerment Zone or Enterprise Community. The proposed tax credit would provide a substantial incentive that would encourage corporations to sponsor such institutions. Up to $16 million in corporate sponsorship payments could be designated as eligible for the 50 percent credit in each of the existing 31 Empowerment Zones (and each of the 10 additional Empowerment Zones proposed in the Administration's FY2001 budget). In addition, up to $4 million of sponsorship payments would be credit-eligible in each Enterprise Community. All told, this credit could induce over $1 billion in sponsorship payments to schools, libraries and technology centers, providing innovative educational programs to disadvantaged communities.

The third component of the Digital Divide proposal is a credit to employers who provide training in basic technology skills, English literacy, and other basic education to educationally disadvantaged workers. The credit would be equal to 20 percent of qualified training expenditures, up to a maximum of $1,050 per participating worker. Eleven percent of the labor force has less than a high school education. Their employers may hesitate to provide general education because the benefits of basic technological and other skills and literacy education are more difficult for employers to capture through increased productivity than the benefits of job-specific education. The proposed credit will help workers with low levels of education to improve their job skills and enhance their employment opportunities.

Specialized Small Business Investment Companies

Specialized Small Business Investment Companies play a special role in insuring that businesses in disadvantaged communities have access to capital. Licensed by the Small Business Administration, these partnerships or corporations make long-term loans to, or equity investments in, small business owned by socially or economically disadvantaged entrepreneurs. The Administration has proposed in the FY 2001 budget that these entities be allowed greater flexibility with regard to their organizational form, and specifically in transitioning from one organizational form to another without triggering adverse tax consequences. For example, the proposal would also allow C corporations to roll over, without payment of tax on realized capital gains, the proceeds from the sale of publicly-traded securities if these are used to purchase a common stock or partnership interest in a Specialized Small Business Investment Company.

Puerto Rico Economic Activity Tax Credit

The Administration supports extension of the wage-based credit as a more efficient means of promoting beneficial economic activity in Puerto Rico, which is still seeking to recover economically from the repeal of section 936 and, in addition, from the devastating effects of Hurricane Mitch. The Administration views the proposed extension of the credit as providing a means to helping Puerto Rico and its people through this difficult recovery and transition period. To provide a more efficient tax incentive for the economic development of Puerto Rico and to continue the shift from an income-based credit to an economic-activity-based credit that was begun in the 1993 Act, the President's FY 2001 budget would extend and modify the phase-out of the economic-activity-based credit for Puerto Rico by opening it to newly established business operations during the phase-out period and extending the phase-out period through taxable years beginning before January 1, 2009.

Renewal Communities

In the "American Community Renewal Act," Mr. Watts, Mr. Talent, and Mr. Davis, joined by numerous cosponsors from both parties, proposed further expansion and refinement of the use of tax incentives to encourage private sector investment in the revitalization of disadvantaged communities. The full Committee has since adopted a version of this proposal. We are eager to work with members of the Committee, as well as Mr. Watts, Mr. Talent, and Mr. Davis, in ensuring, through the use of targeted tax incentives and other complementary measures, that all American communities share in the Nation's general prosperity.

H.R. 3832, which incorporates provisions originally introduced in the "American Community Renewal Act," would permit the designation of up to 15 Renewal Communities, at least three of which would be located in rural areas. Renewal communities would be composed of contiguous low-income census tracts, with respect to which the State and local government had promised to reduce taxes, improve local services, or reduce government regulation. A number of tax incentives would be available to businesses and individuals located in the Renewal Communities.

Clearly, there is broad agreement between the Administration and Congress on the problems facing low-income areas, and the power of tax incentives to help address these needs. In particular, both the Administration and Congress view increased investment as critical to community redevelopment, and tax incentives as a valuable tool to attract capital to lower-income areas.

H.R. 3832 would provide for additional expensing of certain capital investment in excess of that permitted under section 179 of the Internal Revenue Code, and for the expensing of qualified environmental remediation expenses. In addition, H.R. 3832 provides an extension of the Work Opportunity Tax Credit, with certain adjustments, for businesses located in Renewal Communities. H.R. 3832 would permit a credit against tax equal to 15 percent of the first $10,000 in wages paid, per eligible employee, for the first year of employment. The credit rate rises to 30 percent for the second year of employment. Like the authors of the "American Community Renewal Act," the Administration favors increased expensing authority as a means to encourage capital formation in disadvantaged areas, expensing authority to encourage the remediation of environmental hazards, a wage credit to spur the hiring of residents of distressed communities, and measures to encourage saving by low-income workers.

However, the Administration has concerns with the specifics of certain proposals in H.R.3832. Most notably, exempting from taxation the capital gains on the sale of appreciated assets is not an efficient means to encourage capital formation, and may lead to unintended and undesirable consequences. Potential investors in distressed communities are unlikely to respond to an incentive that provides benefits not at the time funds are committed but only upon the sale of the assets. Furthermore, a reduction in capital gains rates will not provide a meaningful incentive to invest in depreciable property -such as machinery and equipment that is so often thought to spur job growth -since such property is unlikely to increase in value above its original cost. And the ability of taxpayers to deduct interest on borrowing while entirely excluding the gains from the sale of certain property, could create negative tax rates like those associated with the individual tax shelters of the early 1980s. This would result in an expansion of non-productive investments that benefit neither the targeted area nor the country as a whole. Finally, exempting capital gains from taxation could have the perverse effect of encouraging disinvestment, as owners of appreciated assets accelerate their liquidation of investments to receive the tax benefit while this is available.

The Administration has supported -and continues to support in the President's FY2001 budget—the basic concept of development accounts. But we have concerns with the particular provisions related to Family Development Accounts included in H.R. 3832. First, allowing an up-front deduction for contributions to a savings account, and an exclusion for earnings and withdrawals from that account, sets a bad precedent by effectively assessing a negative rate of tax on such savings. Second, allowing eligible low-income individuals who make contributions to their own Family Development Accounts, and non-eligible individuals who make contributions to one or more other individuals' Family Development Accounts, to claim an above-the-line deduction for their contributions would create complexity and significant administrative problems.

The Administration supports the structure contained in the Assets for Independence Act, under which Individual Development Accounts established on behalf of low-income individuals receive matching grants from the Federal government and non-profit entities. The Department of the Treasury, in conjunction with the Internal Revenue Service, recently issued guidance clarifying the favorable tax treatment under current-law rules of matching grants received by a low-income individual who establishes such an Individual Development Account.

In addition, the Administration's Retirement Savings Account proposal, a substantial initiative in the FY 2001 budget, provides another model for powerful incentives that should encourage savings by low-income workers while avoiding unintended, and potentially serious, negative interactions with certain facets of the pension and tax systems. We are now actively discussing the structure of this program with representatives from the private sector, including employers and financial service providers. We have been pleased at their generally favorable response thus far, and hope that these conversations will help us further refine and improve the Retirement Savings Account concept.

Notwithstanding these concerns, the Administration looks forward to working with Members of Congress to craft a set of measures that will help reach our common goal of promoting the revitalization of America's most economically disadvantaged communities as efficiently and quickly as possible.

I would like to thank Mr. Houghton, 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 insure that all Americans share in the current prosperity and have even greater opportunity in the future. This concludes my prepared remarks. I would be pleased to respond to your questions.

Chairman HOUGHTON. Thanks very much.

Mr. Coyne?

Mr. COYNE. Thank you, Mr. Chairman.

Mr. Talisman, how would Treasury's fiscal year 2001 proposal, the New Market Initiative, affect three areas: housing, education and crime in the economically distressed areas of the country?

Mr. TALISMAN. We have a number of budget proposals to address crime and housing. One of the aspects of our proposal is to bring investment into these communities to provide a safer environment and to ensure that the communities will be better developed and therefore, be less suspect to the concerns that you have raised.

We have what I would call corollary budget proposals to address the concerns of education, for example, expansion of the Qualified Zone Academy Bond Program in those areas as well as our School Modernization Bond Program and then we also have discretionary authority with respect to the crime issue.

Mr. COYNE. So education concerns would be addressed as part of the overall proposal?

Mr. TALISMAN. As part of the overall budget proposal, that is correct. As I pointed out, our digital divide proposal would also encourage employers to provide basic training to their economically disadvantaged workers to bring them up and let them share in the prosperity.

Mr. COYNE. What tangible progress has been made in distressed communities that were designated under the EZ/EC Program since this subcommittee held its oversight hearings in 1997? Could you bring us up to date on progress there?

Mr. TALISMAN. Again, the usage of EZ/EC, the wage credit has increased significantly since we last testified between 1997 and 1998. There has been a great deal of activity both on the discretionary side and on the tax side and educational efforts to bring greater activity into the EZ/EC.

What we have done is there have been efforts at work force development, access to capital, increased jobs and projects and programs that I think all lead to evidence of success, but again, this is a question I think would take a great deal of time to answer. I would be happy to answer more fully in writing.

Mr. COYNE. Could you tell us the status of the Title 20 and other funding for the EZs? Could you tell us about the funding, Round 1, Round 2 and the proposed Round 3, the status?

Mr. TALISMAN. Again, Round 1 is fully funded. Round 2 we propose in our budget and we would be happy to work with Congress to ensure that there is budget authority for the Round 3 empowerment zones as well.

Mr. COYNE. What about the proposed Round 3? You are proposing full funding for Round 3, is that it?

Mr. TALISMAN. No, we have proposed full funding for Round 2 and would be happy to work with the Congress to ensure full funding for Round 3.

Mr. COYNE. So that is open for negotiation?

Mr. TALISMAN. That is correct.

Mr. COYNE. Thank you.

Chairman HOUGHTON. Mr. Hulshof?

Mr. HULSHOF. Thank you, Mr. Chairman.

Mr. Talisman, I am going through, in addition to your oral testimony, your written statement as well. Specifically, a couple of points that you mentioned on page nine, some of the concerns that the Administration has exempting from taxation the capital gains on the sale of appreciated assets. I am not going to delve into that any further as far as making a comparison with the Watts-Talent Community Renewal Act but the paragraph under that talks about your concern about family development accounts. You allege that allowing low income individuals who make contributions to their own family development accounts to claim an above the line deduction would create complexity and some administrative problems. Would you expand on that?

Mr. TALISMAN. The question I think is twofold with respect to family development accounts. First, it is the first instance to our knowledge that you would get both an up front deduction for contributions to the account and exclusion for earnings from the account and then an exclusion for withdrawals from the account.

We also think the above the line deduction for the account, the complexity arises from the fact that it is not only the individual who can make contributions to the account but other persons can make contributions to the account as well. It would be very difficult for the IRS to track those amounts and to ensure there is not a double dip or more than that with respect to the accounts.

All of these things, we share the goal of encouraging economically disadvantaged people to provide for accounts as evidenced by our retirement savings accounts and our support for the individual development accounts. Certainly we would be happy to work with you all to come up with a mechanism we agree does not create these concerns.

Mr. HULSHOF. One of the reasons I asked you that Mr. Talisman is because just gleaning from your written statement a host of tax credits, some that are already law like the low income housing tax credit which I fully support, and then some new tax credits, I just find it interesting that you talk about complexity to the Code because I think tax credits adds to that complexity.

Let me ask you specifically, I think it was a couple of years ago if my memory serves, maybe as far back as 1995 that the Housing and Urban Development Inspector General was somewhat critical of the process used to determine the empowerment zone designations. As I recall, that report noted there were several enterprise community applications that were selected and the categorization of them was “weak” and they were selected over eight strong applications and 21 medium applications.

Far be it for me to suggest that the Secretary of Housing and Urban Development would make these decisions on political reasons, either former, past or future Secretaries, but what assurance can you give us as far as steps being taken to improve the selection process to make sure that the neediest areas do receive these designations?

Mr. TALISMAN. Mr. Hulsof, to be honest, I think it would be better if I refer your question to HUD regarding their process. I know they have put in safeguards since that report and I would be happy to get them to respond to you with respect to those safeguards.

Mr. HULSHOF. In the new markets proposal, it seems that Treasury would also have quite a bit of discretion in choosing which entities would convey a credit to its investors. I guess I am asking shouldn’t those decisions be based on objective criteria, maybe spelled out in legislation or would you prefer to allow your department to issue those regulations?

Mr. TALISMAN. The CDFI Program already uses a criteria to certify CDFIs. Those criteria include the organization’s financial capacity, the capacity and skills of its management team, its track record in community development and then looking at projections for the tax credits that it would be allocating.

We certainly would be happy to work with the Congress in developing such criteria we believe that by regulation would give us the most flexibility for providing those criteria and potentially reacting to the marketplace in the future.

I appreciate your concern. I think it has worked very well in the CDFI in response to certain concerns. Again, those criteria have been strengthened and I think the recent reports from both GAO and the IG's Office with respect to the CDFI Fund have been unqualified opinions.

Mr. HULSHOF. Thank you.

Chairman HOUGHTON. Mr. Weller?

Mr. WELLER. I want to follow up on the comments I made earlier regarding brownfields and the need to do a better job of recycling, cleaning up and revitalizing brownfields throughout this country.

I noted according to the League of Cities and some of the other community organizations that there is over 410,000 brownfields that currently are left out and do not qualify for the existing provision in the tax code that we worked together on back on in 1997 putting together the Balanced Budget Act to provide a tax incentive for private investors to purchase, do the environmental cleanup and recycle and to bring jobs to these blighted communities.

In the President's budget, the President included a provision to extend the current provision and make it permanent. While that is a great idea because I am one of those who worked to put the original provision in the law, I would like to better understand why the Administration did not include in your budget this year, not just the extension but also to expand this provision so that rural, suburban and middle class communities can utilize this tool to recycle, reuse and revitalize communities?

Mr. TALISMAN. I think there is a balance here, Mr. Weller. Obviously the brownfields proposal is not only about environmental cleanup, it is also aimed at encouraging the revitalization of these communities. I think we have some concern regarding if you extend the ambit of the proposal to all areas that the distressed communities will be the last ones to receive the capital necessary to remediate these sites. So we though the targeting of the proposal was proper to ensure that the economically disadvantaged communities receive the first available funds to remediate and that this incentive would encourage that.

Certainly if the targeting is something that is too tight, we would certainly be willing to talk to the Congress about the targeting but we do worry about losing the capital incentive.

Mr. WELLER. So you are saying that rural communities, suburban or middle class communities should not benefit from a tax incentive to clean up that gas station that is on that strategic corner, on that major thoroughfare through town or that industrial park that is on the side of town that hasn't been used for decades because there is a need for environmental cleanup and it just happens to be a middle class community?

Mr. TALISMAN. Again, I think there are issues regarding the targeting. The market generally will work to provide the capital necessary to clean up sites in affluent areas. Certainly with respect to rural areas that you discussed, there are a number of rural areas that would qualify for the current brownfields incentive.

Mr. WELLER. There have been statements made by the Administration regarding smart growth and that concept to try and discourage urban sprawl. Statistics show that to compare brownfields to new greenfield industrial parks that consumes about four to five times as much open space to create a new industrial park. Suburban areas are where you are experiencing this so-called sprawl, not in the inner city. We want to revitalize the inner cities and that is the purpose of this hearing. At the same time, we also want to help the environment by bringing urban sprawl under control.

If we remove the so-called targeting, we help those suburban communities control sprawl, don't we?

Mr. TALISMAN. With respect to sprawl, I think our Better America Bonds Program would certainly help in that regard and keep open spaces.

With respect to the brownfields, I think the reason we have made it permanent is one of the problems we have faced is that the take-up rate on the brownfields has not been great because of the lack of permanence, the States need to market this proposal to encourage capital formation and also that there are certain brownfield projects such as groundwater cleanup that take a number of years.

Mr. WELLER. My friends Mr. Coyne, Mr. Johnson and others, in fact ten members of this committee, five Republicans and five Democrats, have introduced a bill which does extend the existing provision but also expands it so that rural, middle class and suburban communities can also utilize this tool to clean up that old industrial park and to clean up that old gas station on that strategic corner. We believe that middle class communities need help too.

Would you be willing to work with us to find a way to expand this tax provision so that we can help these communities regardless of where they are located, rural, suburban, middle class or elsewhere, not just in the inner city and low income neighborhoods?

Mr. TALISMAN. Mr. Weller, I would be happy to work with you to see if we can develop an approach that we are both comfortable with in this regard.

Mr. WELLER. Thank you.

Chairman HOUGHTON. Before I go on to the next questioner, I would like to say that Representative Thomas Allen of Maine and Tony Hall of Ohio have joined us. Gentlemen, we are delighted to have you here.

Mr. Lewis, would you like to inquire?

Mr. LEWIS. Thank you very much, Mr. Chairman.

Thank you, Mr. Secretary for being here today. I just have one question to ask.

As you may know, the district I represent, which includes the City of Atlanta, has a lot of historic homes, especially in distressed areas. That is why I am a co-sponsor of H.R. 1172. I believe Chairman Houghton made a reference to this piece of legislation in his opening statement. Does Treasury have a position on H.R. 1172 which would provide a tax credit for the rehabilitation of owner-occupied homes in historic districts? Do you agree that such a tax credit would be helpful in improving these overlooked, distressed communities in our cities and rural communities all over America?

Mr. TALISMAN. Mr. Lewis, obviously we did not adopt that proposal as part of our budget, however, as evidenced by all the budget proposals discussed in my testimony, we share your interest in revitalizing these communities and in ensuring that the economically disadvantaged communities can share in the prosperity.

We have some concern with respect to the targeting of the historic home ownership tax credit but share your goal in making sure these communities are updated and modernized. One of the ways we think we can do that is by spurring job growth through the new market tax credit and the empowerment zone incentives that we provide in our budget.

Mr. LEWIS. In supporting this piece of legislation, you would have tremendous support from this committee. I believe the great majority of the members of this committee, in a bipartisan fashion, support this piece of legislation. It would improve many communities, not just our large urban centers, as I tried to state, but in hamlets, towns and villages all across America.

Mr. TALISMAN. Again, we share your goals and we would be happy to work with you with respect to the targeting of your proposal to make sure it functions appropriately but again, we have certain concerns and we believe the approach taken in our budget will have an effect on these communities in a way that will be targeted.

Mr. LEWIS. Thank you very much.

Chairman HOUGHTON. You don't have any other suggestions for us in pushing through this legislation because ultimately we will be dealing with the Treasury.

Mr. Watkins?

Mr. WATKINS. Thank you, Mr. Chairman.

I thank you so much and the members of the committee for having these oversight hearings. I would like to take some points being made today that we can take forward and hope the committee will.

Let me say I was working on the enterprise zone back when Jack Kemp was and I was on the other side of the aisle at that time and went all the way to the White House when President Reagan was there, pounding the table trying to get some kind of equity for the economically and rural depressed areas of this country. Finally a third was set aside for rural America and that helped a lot. We should have equal but at least a third.

What I am pointing out is that I am for community renewal, new markets, trying to bring out these economically depressed areas and helping to give people an opportunity to stay, live, work, and raise their families in those areas. I had to leave three times before I was nine years of age and it destroyed my family.

I have been told by Jim Talent and J.C. Watts that the empowerment zones and enterprise communities will be given priority. I would like for us to have some clarification language to that question, that they be designated so that they are not left out. Yes, expand and create some more, but make sure we also do that with equity. First, I would appreciate some clarification language by the Administration and hopefully by our committee staff to make sure that is very clear in the language and that we have that priority and designation. When they were established, there were nine empowerment zones, six urban and three rural—95 enterprise zones, out of 95, 65 were given to urban but only 30 given to rural. It should have been at least 33 given to the rural areas.

In the 1997 Tax Relief Act, two more urban were set up but not one for the rural areas. So I hope that we can propose—my staff will work with the committee—and that we add the equity of at least one more empowerment zone for the rural areas.

I work with Indian tribes in my area and we have 22 percent of the American Indians in the United States in eastern Oklahoma. I work with two of the tribes, getting them to work with the communities there so we can work together but we need to add that in some additional legislation.

What disturbed me was when I looked at the Administration proposing that we extend and expand the empowerment zones. When I look at that, they are proposing ten additional empowerment zones—eight urban and only two rural. The small people get stomped on. I sound like a Democrat, don't I? There is still a little bit of it in me, I guess. I would like the Administration to treat the rural economically depressed areas of America with the same equity as urban areas.

I just left some families a while ago in my office who have lost everything because prices are 1946, 1947 prices but they have no jobs in those rural areas, off-farm jobs. I have devoted my entire life to trying to build jobs so our people could stay, live and work and raise in those areas. When I look at the inequities, it makes me think maybe the Administration doesn't care about the rural areas.

We say these tax credits or investments should be going to selected community development entities. When I look at community development entities, I don't see the enterprise communities or empowerment zones listed. I would like to ask that question of you. Can we get equity for the rural areas from this Administration, hopefully from this committee too? Can we get an answer about the CDEs? Do they include the enterprise zones, empowerment zones and enterprise communities?

Mr. TALISMAN. Mr. Watkins, in response to your questions, we would be happy to work with you to ensure equity across the board for both rural and urban communities. I would point out that under the new markets tax credit, 51 percent of rural tracts are eligible for the new markets tax credit and that is approximately one-third of all eligible tracts. So I do believe there is equity in that proposal. We certainly want to work with all members of Congress to ensure equity across the board.

Mr. WATKINS. It is so significant in the small rural areas. The largest movement of people ever in the history of our country was from the rural areas to the urban cities during the Great Depression and World War II. Basically, we did nothing to stop that. Now we have a lot of inner city problems. At least in rural areas, people are known by name, they can have some self esteem. We need to have help and I want to say I am going to stand up and fight for it.

I don't like to see proposals come in where you say you will and change it. Will you come here and change what you are proposing to make sure there is a third of those rural areas?

Mr. TALISMAN. Again, I am happy to work with Congress to develop a proposal that is balanced. Again, we will work with you and the rest of the committee to ensure on a bipartisan basis we have achieved that balance.

Mr. WATKINS. I would appreciate that very much.

Let me say the voices of the rural people are faint, they are scattered. You can have a fire in an urban center and it is worldwide news. You can burn one of my little towns to the ground and it is not worldwide news. It is faint because they have all left.

My mother insisted that I get an education. The only problem is lots of times in rural areas, you are caught by the digital divide, you lock yourself out. You cannot go home. I want equity for the rural areas of this country. I would appreciate very much if you could provide to me and to this committee how you are going to provide that equity. Hopefully our committee will help the other committee to make sure it is adopted with equity for the rural areas.

Mr. Chairman, I appreciate this opportunity very, very much. You are familiar with my part of the country and I know how difficult it is. We have 22 percent of the Native Americans and I worked very hard putting together a package and we did not get declared an empowerment zone even though I worked closely with the tribes in a rural depressed area that is one of the top ten lowest economic areas in the Nation. Maybe if that one addition had been done, we would have made it but didn't do it.

Chairman HOUGHTON. Mr. Secretary, we appreciate your being here. As you can see, Mr. Watkins feels very strongly about these matters and if you could work with him we would certainly appreciate it.

Thank you very much for your testimony.

Mr. TALISMAN. Thank you very much.

Chairman HOUGHTON. We will move on to the next panel. The next panel will be Mr. Brian Wallace, Chairman, Washoe Tribe of Nevada and California and Vice President, National Congress of American Indians; the Honorable Rebecca Brumagin, Supervisor, Town of Mina, Findley Lake, New York; Ronald L. Phillips, President, Coastal Enterprises Incorporated, Wiscasset, Maine, on behalf of the Community Development Tax Credit Coalition; and William D. Reighard, President, Food Donation Connection, Newport, Virginia.

Before the panel starts, I would like to introduce Mr. Tony Hall of Ohio who is very interested in these areas, particularly in the food donation program. I would like to have him say a word or two.

STATEMENT OF HON. TONY P. HALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. HALL. Thank you, Mr. Chairman.

I have a written statement that hopefully can be a part of the record. If it cannot, I am just glad to be here. I don't sit on the Ways and Means Committee but I am glad to be here to talk about a bill that you and I are both interested in and I am grateful for you scheduling this meeting.

I am also here in support of what Mr. Reighard is probably going to say to you about H.R. 1325, the "Good Samaritan Tax Act." A good portion of the members of this committee and the full committee are cosponsors of this legislation. What it says in so many words is to allow the donation of food to our food banks and soup kitchens of the country so that the people that are donating the food can get a better break than what they are getting now on the donation of food.

For example, if XYZ hardware store offers nails and hammers to Habitat for Humanity, they get a pretty nice deduction on that. If the same group of people offer food, they don't get really a deduction. Corporations get a deduction but small businesses and certain types of franchisees, for example, Pizza Hut, the corporation, when they donated lots of food in Cleveland, Ohio, they got a significant tax break but when a lot of the stores there when to franchisee stores, the donation of food dropped substantially.

What we are trying to do is provide for businesses, farmers, small businesses, franchise stores to be given the ability to donate food to food banks and soup kitchens. I would hope that the Congress would approve the ability to buy more commodities but subject to doing that, whether they are going to do it or not, we should increase that appropriation. If we don't do it, this would be the second best thing, to allow people to donate food to food banks and soup kitchens. Even though the economy great and going up, there is a tremendous need out there. As a matter of fact, there has been a 150 percent increase in people asking for food over the past four or five years.

This bill is a rather simple bill and I hope that this committee will look on it in a very favorable way.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Tony P. Hall, a Representative in Congress from the State of Ohio

Mr. Chairman, I am grateful to you for scheduling a hearing on this important topic. It is clear that the benefits of the longest economic expansion in our history have skipped over many areas in our nation.

I sense a genuine desire to do something to assist these distressed communities. This desire exists in both parties; in both the House and the Senate; and in both the Legislative and Executive Branches. As the President put it in his State of the Union Address, "This is not a Democratic or a Republican issue. Giving people a chance to live their dreams is an American issue."

But as we consider legislation to address the problems of people who live in the Mississippi Delta or on Native American reservations, we also should keep in mind that even in areas that have greatly benefitted from the expansion, some have fallen through the cracks. Just last week I read in the Washington Post that in Fairfax County, the home of the Internet, the number of homeless people now exceeds 2,000. More than 800 of them are children. In my own district of Montgomery County, Ohio, the unemployment rate is now lower than the national average, but the number of people seeking assistance from food banks is increasing.

This is not a problem that the federal government can solve alone. There is a role to play for churches and other faith-based organizations, the private sector and generous citizens. One way to get these people involved is for federal tax policy to offer incentives.

Chairman Houghton and I are sponsoring legislation, the "Good Samaritan Tax Act," to encourage donations of food. Our bill has two simple principles:

1) The tax code ought to treat donations of food in the same way it treats donations of other inventory; and

2) Tax incentives ought to be available to anyone in the food business, not just corporations.

Our bill is affordable. The five-year estimate by the Joint Committee on Taxation is $187 million.

As part of the next panel Bill Reighard, President of the Food Donation Connection, will speak about this bill in greater detail. I want to thank Bill for coming here today.

I am pleased that a majority of the Members of the House Ways and Means Committee has joined us by cosponsoring this legislation. I would urge that, as the Committee drafts its legislation, that it include these provisions. Thank you.

Chairman HOUGHTON. Thank you, Mr. Hall. As you know, I totally agree with you. You are wonderful to make that statement. I think that will be helpful as background material.

Now I would like to introduce Congressman Tom Allen to introduce his constituent, Mr. Phillips.

Mr. ALLEN. Mr. Chairman, I thank you very much for allowing me to be here. I also am not a member of this committee but I did want to be here to introduce Ron Phillips to the committee.

In Maine, Coastal Enterprises and Ron Phillips are regarded as a State treasure. I don't mean to embarrass Ron by that. He is here today to speak for the Community Development Tax Credit Coalition but in southern and central Maine, project after project and business after business owes their prosperity and sometimes even their existence to the good work of Coastal Enterprises.

Coastal Enterprises is a nonprofit community development corporation located in Wiscasset, Maine and it works with individuals, other financial institutions and government agencies to make sure that community development takes place as it is meant to take place, in a concrete way so that individuals and small businesses get a chance to succeed. To does a lot of work with financial and technical development assistance, with research and policy development work. It has an excellent record for effectively using public funds to help leverage private investments. In particular, in Maine as we have lost the textile industry and the shoe industry, Coastal Enterprises has been very effective in helping displaced workers retrain for other lines of work.

If you go to the Coastal Enterprises annual meeting, as I have on several occasions, and hear individuals who stand up and say I was on welfare and didn't think I had a chance, but then they started their own business through the good work and assistance of Coastal Enterprises, you begin to have a sense of the impact of this organization on individuals and businesses throughout southern Maine.

Ron Phillips and Coastal Enterprises are recognized more in Maine but around the country and I am delighted to welcome him here. We are proud of him in Maine and we know the work they are doing in Maine is really a model.

I thank you very much for allowing me to welcome him here.

Chairman HOUGHTON. Thank you very much, Tom.

Mr. Phillips, would you like to testify?

STATEMENT OF RONALD L. PHILLIPS, PRESIDENT, COASTAL ENTERPRISES, INC., WISCASSET, MAINE, ON BEHALF OF THE COMMUNITY DEVELOPMENT TAX CREDIT COALITION

Mr. PHILLIPS. Thank you, Congressman Allen, very much for doing that.

Thank you, Chairman Houghton and members of the committee. I am very glad to be here today to support this bill, the "New Markets Tax Credit." My comments are written and they can be presented for the record but I will try to summarize them.

My name is Ron Phillips and I am President of Coastal Enterprises. We are a nonprofit community development corporation and community development financial institution based in the rural, mid-coastal village of Wiscasset, Maine. Our mission is to help low income people and communities achieve an equitable standard of living, learning and working in harmony with the natural environment.

We provide flexible venture capital and subordinated debt financing and technical assistance throughout the State to develop small business startups and expansions, value added natural resources from our farms, fish and forest sectors; social services facilities such as child care centers and affordable rental and home ownership housing. We have directed some $275 million in capital in partnerships with banks and other private and public investors to over 1,000 projects to create economy opportunity, livable wage, jobs, self employment and housing for thousands of Mainers, women in business and now an increasing number of refugees and new immigrants in our State.

I am here today both as a practitioner of community economic development and as a representative of the New Markets Tax Credit Coalition to encourage your bipartisan support of this bill. Our New Markets Tax Credit Coalition represents many of the over 4,000 community development corporations, community development financing institutions, community development banks and credit unions, national intermediaries and others, some of the regions of this country like the Mississippi Delta, the Mid Atlantic or border regions of the southwest and even communities where CDCs are active in EC or EZ designated areas. So we have quite a network.

We believe that the New Markets Tax Credit will provide a major tool to access private capital for low income rural and urban neighborhoods and people and enable community development entities like CEI to invest in small business entrepreneurs, new ventures, commercial real estate and community development facilities.

The media, as we have heard, is bursting with news of the booming stock market and the race to invest but none of these investments is going to low income rural and inner city areas. According to PricewaterhouseCoopers, 90 percent of the nationwide investments have been flowing to high tech and Internet stocks and related industries. In our own State of Maine, regional disparities and major plant closings and downsizings as Congressman Allen talked about and downsizings are challenging employment and economic opportunity for tens of thousands of older as well as younger working families. These conditions are pronounced in other regions like Appalachia where poverty and unemployment have actually increased for many of its counties in recent years.

At the same time at the grassroots level, there are partnerships and alliances underway to rebuild our communities. Local government, private industry, the banking community, academic institutions and citizens are engaged.

In Maine, our legislature is actively considering bills to support innovative, specialized incubators, stepped up technical assistance for small businesses and micro enterprises, capital for new farm enterprises and even incentives for banks to loan money to CDCs and CDFIs. So we don't just look to the Federal Government for this kind of assistance. But the New Markets Tax Credit can play a powerful role in boosting similar initiatives to access private capital, to invest in small businesses, entrepreneurs, commercial real estate, facilities and communities that are left out of the tremendous economic boom. It will encourage long-term partnerships among the private, nonprofit and public sectors.

Let me say this about the community development field. There is a network of thousands of CDCs and CDFIs and national intermediaries ready, willing and able to work with this credit to achieve the kind of impact on people and communities we are talking about here today. Many have already had significant experience with the Low Income Housing Tax Credit. A tested infrastructure is actually in place.

CEI itself has a record of success in tax credit financing for community development projects. In 1993, 20 urban and rural CDCs participated in an innovative HUD tax demonstration project which provided a five percent credit per year over ten years to the investor. In partnership with KeyBank of Cleveland, Ohio which is very active in the small business market of Maine, and assisted by the National Rural LISC Group, we mobilized $2 million to capitalize a small business loan fund. Typically, this kind of capital serves the purpose of filling a gap in a business financing deal, what we call subordinated debt or even equity so that the senior debt of other banks and lenders can come into the project.

To date, we have financed 21 small businesses. That includes child care centers, fish processing facilities, alternative home care services, retail food cooperatives and other ventures that are contributing to Maine's economic development while creating access to jobs and services for low income families. Over 500 jobs have been retained or created in the program, many of them for a TANF recipients. What is more, millions of dollars, over $8 million, were leveraged in other capital with these projects. So in actuality, we have put together about $10 million for these 21 deals. The project is beginning to pay in government taxes and savings from social assistance.

One story worth noting because the project simply goes to the heart of creating opportunity for the harder to employ is Faithworks in Lewiston. Lewiston, by the way, is a designated Enterprise Community, the only one in Maine. Father Bill Baxter of Faithworks created a job shop assembly operation that performs contract work such as stuffing sample bags you might find in your Sunday newspapers. It provides employment for welfare recipients and others who need entry level jobs and the time and space in a nurturing environment to grow before they can be ready for better paying jobs.

Over 600 people have participated in the program. On location at the space in the former mill complex where Faith Works is located, representatives from the Work Force Development Center stand by to recruit workers and sign them up for specialized training and career growth and other job placement. Funds from this HUD tax credit demonstration we put together helped start this project.

Let me offer a few recommendations about the New Markets Tax Credit that we think are important to ensure its optimum success. The current New Markets Tax Credit proposal is for a five year, six percent credit. It provides for $3 billion per year in activity for fiscal years 2001 through 2005. Credits would be sold to investors, just like we sold our credit to KeyBank in Cleveland, so that community development entities such as CDCs or CDFIs can provide the technical and financial assistance to the range of private business enterprises and community development projects in designated low income communities.

Based on our experience in working with businesses, people we want to help in communities and regions we care about, we recommend three changes. They relate to the targeting provisions of the bill, the term of the credit and criteria for selection of the CDE, the certified development entity as defined in the bill.

First is targeting. The current proposal would limit the benefit of the tax credit to low income people and activities in eligible census tracts. This will unnecessarily exclude a majority of the geography of the United States and especially hurt rural regions where poverty is not concentrated geographically, or businesses simply just don't locate anywhere. We recommend that an option to target either people or place be permitted as now contained in the Senate bill.

I was looking over three projects I wanted to describe to you in detail. I know I only have maybe a couple of minutes left but one has to do with a project based in Bangor that provides foster care support for kids in eastern and rural parts of Maine. It is a great program. In fact, one of the participants there was featured by the United States Treasury under the CDFI Program. Former Secretary Rubin was quite taken with her story. This would not be an eligible area for this program.

Another project envisioned is a fast growing telecommunications call center that provides computer support services. It has a contract with Microsoft for example. There is a pending contract with a major West Coast bank to tell you what is going on with on-line banking right in Maine. The jobs are growing and they are paying relatively good wages. We are trying to get people in there. In fact, they have hired now over 200 people with low incomes and on welfare that would qualify in the program we are trying to help with the New Markets Tax Credit. However, this company would not be eligible for the capital that we could invest in under the new market tax credit as proposed.

Second is the term. Economic development is a long-term process and the current term of 6 percent credit for five years from an economic development standpoint is just too short. We would prefer a ten year term with a minimum of a seven year threshold. I think the Senate bill contains that provision. Senators Rockefeller and Robb have that in there.

Finally is selection criteria. I agree with what was said earlier regarding the criteria for selecting the CDEs, that there needs to be a screening process that clearly spells out that a CDE ought to submit a five year business plan, show its capacity, its track record, and that its mission is compatible with the goals of the tax credit.

In conclusion, the CDC/CDFI is prepared to serve as a gateway to underserved new markets, communities and people to ensure more Americans have a chance at economic fulfillment. This goal is more important today than ever in a time of great wealth creation. The lower income and working people of this country are part of a phenomenon that some are actually calling growth without prosperity. The New Markets Tax Credit is designed to divert capital from the private market to new market opportunities. We have experience, we have a network, we have untapped potential. We urge your bipartisan support of a bipartisan issue. We applaud therefore the work of all those who have brought forward this legislation from the White House and Treasury Department to members of your staff and this committee, and those in the Senate with the companion bill. It is going to make a big difference for a lot of people to get a share of the expanding American pie.

Thank you very much.

[The prepared statement follows:]

Statement of Ronald L. Phillips, President, Coastal Enterprises, Inc., Wiscasset, Maine on behalf of the Community Development Tax Credit Coalition

Mr. Chairman and members of the House Ways and Means Oversight Subcommittee, my name is Ron Phillips, and I am President of Coastal Enterprises, a nonprofit community development corporation based in the rural, midcoastal village of Wiscasset, Maine. I am here today both as a practitioner of community economic development and as a representative of the Community Development Tax Credit Coalition to speak on behalf of the New Markets Tax Credit Bill H.R. 2713. I would like to thank Chairman Houghton, Rep. Coyne and the members of the Subcommittee for this opportunity to testify in favor of the New Markets Tax Credit as proposed by President Clinton in his fiscal year 2000 and 2001 budgets, sponsored by Congressman Rangel, and sponsored by Senators Rockefeller and Robb in S.1526. My comments and recommendations are written and are presented herein for the record.

If enacted, we believe the New Markets Tax Credit will benefit millions of families, individuals, and rural and urban regions and neighborhoods in this country still outside of the mainstream of economic prosperity.

The New Markets Tax Credit will encourage private investment to promote economic development in communities being left out of the tremendous economic boom being experienced in the U.S. It will encourage long-term partnerships among the private nonprofit and public sectors. Representative Houghton and members of the Subcommittee, we applaud therefore the work of all those who have brought this legislation forward, from the White House and Treasury Department, to members of your staff, and those in the Senate with their companion bill. It is going to make a big difference for a lot of people seeking a share of the expanding American pie.

INTRODUCTION

First, a word about the Community Development Tax Credit Coalition. We represent community development corporations, community development finance institutions, community development banks and credit unions, venture capital, secondary market securitization, and special regions such as the Mississippi Delta, or boarder regions of the southwest. Together these groups represent some 4,100 CDCs/CDFIs in rural and urban regions geared up to implement this NMTC.

Let me also add that I serve on several boards relevant to our community development field, including the banking community. These are KeyBank's national community development board, which partnered with us in an innovative economic development tax credit I will discuss briefly below, the FHLB of Boston, whose member banks are potential lenders or investors in this proposed tax credit, the board of directors of the National Congress for Community Economic Development, with 800 CDC members especially representative of African American and other minorities, the board of National Community Capital, which is the voice for the CDFI field of 500 entities, and the Rural LISC advisory board, an organization that is providing support to an expanding number of rural development organizations. I was a founding member of the Association for Enterprise Opportunity which advocates for microenterprises, and the Community Development Venture Capital Alliance, which is expanding the role of targeted venture capital to benefit low income people and communities.

About CEI

Based in the rural, coastal village of Wiscasset, CEI is a privately and publicly funded organization operating primarily in Maine's rural regions. Our mission is to help low income people and communities achieve a better standard of living working and learning in harmony with the natural environment. We provide equity and subordinated debt capital and technical assistance to develop starting or expanding small businesses, social services facilities such as child care, and affordable rental and homeownership housing. We employ nearly 70 people, manage 8 branches throughout the state, and invest capital raised from private foundations, banks and investors, and public sources, especially federal agencies. We have directly invested or leveraged over $275 million in partnerships with banks and other private or public investors to over 1000 projects to create economic opportunity and livable wage jobs, self-employment or housing services for thousands of Mainers, including women in business, refugees and new immigrants.

Maine lags behind the nation in many indicators, whether R&D, post secondary educational attainment, housing affordability or disposable income. Per capita income is 13% below the national average, and hourly wages lag behind as well. It is the poorest state in New England, and has been hard hit over the past few years with plant closings and downsizings, particularly in the central part of the state. Yet Maine has tremendous assets in natural resources and small business entrepreneurs. Mainers foremost have an exceptional work ethic. It is these skills and potential to adapt to new opportunities in a changing global economy, while preserving a rural way of life that we seek to optimize. Access to private capital is essential to unleash the entrepreneurial talent of people and regions not yet in the mainstream.

At CEI we target financing to small firms that create livable wage jobs for low income individuals, add value to our natural resources, such as farms, fish and forest products, and new and emerging technology sectors including locally-owned telecommunications firms. We develop alternative, home-based care and assisted living facilities for the elderly. We have one of the nation's leading telecommunications capacity building assistance programs, reaching thousands of businesses to develop their e-commerce business opportunities. Our current portfolio consists of 500 ventures employing nearly 5000 Maine workers. We've counseled 10,000 small entrepreneurs, helping specific populations such as women business owners, or refugees and new immigrants gain access to technical and financial resources for their businesses.

However, we cannot do our work without access to flexible development capital and technical funds for technical assistance. These are the lynch pins to create economic opportunity in new market regions. The NMTC has the potential of creating access to flexible private capital in a powerful way to invest in our small business entrepreneurs, new ventures, commercial real estate and community development facilities and projects to benefit low-income communities.

What is the New Markets Tax Credit?

First, a few words of background about the New Markets Tax Credit. The New Markets Tax Credit is a 5-year, 6% per year credit allocated to qualified CDEs. The CDEs will use the capital gained from the sale of the credits to private investors to provide technical and financial assistance to a range of private business enterprises and community development projects in designated low-income communities. The Credit is designed to encourage $15 billion in private sector equity investment for business growth in low-and moderate-income rural and urban communities. The Administration's proposal provides for $3 billion per year in activity for 2001 to 2005.

Qualified community development entities (CDEs) would apply to the Treasury Department for an allocation of the Credit. These CDEs must have as their primary mission to serve or provide investment capital for low-and moderate-income communities, and maintain accountability to community residents. CDEs include community development corporations, community development financial institutions, small business investment corporations, community development venture capital firms, and other investment funds. Once the credits is allocated, CDEs would sell the credits to investors, and use the proceeds of the sales to benefit low-income community businesses and programs.

Investors in community economic development would, in turn, receive tax credits of approximately 25% in net present value on their investments.

The Community Development Tax Credit Coalition is among the strongest supporters of the New Markets Tax Credit. I would like to address three main points regarding the Credit:

1. The need for investment in low-income areas;
2. the ability of community development entities to funnel this investment; and
3. some suggestions to make the Credit a more effective tool for the people it is meant to serve.

THE NEED FOR LONG-TERM, PATIENT CAPITAL IN LOW-INCOME COMMUNITIES

According to PricewaterhouseCoopers, venture capital investment nationwide hit a record high of approximately $15 billion in the fourth quarter of 1999. This amount of $15 billion should sound familiar -it is equal to what the President has proposed in his recent New Markets Tax Credit over five years. We are asking that the federal government support this Credit to provide incentives to invest in low-income communities over five years what has been invested in just three months, primarily in technology. Technological firms captured more than 90 percent of nationwide investments, and about half of the remaining 10 percent went to similar Internet-related industries.

As we all know, rural areas and inner cities are not centers of Internet technology. Small businesses located in these communities operate primarily in natural resource-based industries, manufacturing, and retail. Only a tiny two percent of the fourth quarter funds reported by PricewaterhouseCoopers supported industrial investments, and five percent or less went to non-Internet related rural investment.

For many rural areas, the current economic boom is a distant echo. The ten poorest counties in the U.S. are rural, with poverty rates in some cases exceeding 60 percent. The number of Appalachian counties with unemployment and poverty rates at least 25 percent higher than the national average went up to 97 in 1998 from 90 counties in 1992.

We are paying a price for allowing the tide to lift some boasts so much higher than others. The employment situation, which seems so upbeat nationally, is distinctly downbeat for many Americans. For example, while Hispanic males have the greatest labor participation rate Hispanic families have the highest poverty rate.[1] This is aggravated by lack of access to financial services and capital, manifesting itself in lack of housing and community facility developments in low-income Hispanic and African American communities.

These statistics show that while the national economy and employment rates are at record highs, certain people and areas of the country are experiencing increased poverty and income disparity.

It is important to provide an economic stimulus to these communities that are missing out on this growth. If we do not provide these incentives now when the economy is at an all-time high, when will we be able to do so?

The New Markets Tax Credit is an opportunity for low-income communities to get access to the nation's exploding venture capital economy.

THE CAPABILITY OF COMMUNITY DEVELOPMENT ENTITIES

A nationwide network of more than 4,100 non-profit community development entities has the capacity and the proven ability to funnel new capital into poor areas. They are rooted in the communities they serve. They are accountable to the people who live there. And they have demonstrated their ability to effect change over the past thirty years -by building more than 580,000 affordable housing units, more than one-third of all affordable housing nationwide, producing 71 million square feet of commercial industrial space, and creating or maintaining 275,000 private sector jobs.

[1] While Hispanic males have the greatest labor participation rate (76.9 percent, compared to 75.8 percent for white males and 68.7 percent for black males), Hispanic families have the highest poverty rate (27 percent, compared to 26.4 percent for African American families and 8.5 percent for white families).

Community development entities have successfully used tax credit vehicles in the past. Both the Low Income Housing Tax Credit as well as the Community Development Corporation Tax Credit Demonstration have been effectively used by community development entities to attract private investment capital for development that benefits low-income communities.

The Low Income Housing Tax Credit is an effective tool for encouraging private investment, and has formed partnerships between the non-profit and for-profit worlds. The Low Income Housing Tax Credit has transformed the way the country finances low-income housing since it was enacted in 1986. Annually, it generates more than 60,000 to 70,000 units and $1.8 billion in related wages. Non-profit organizations currently produce one-third of these units.

CEI'S HUD CDC TAX CREDIT DEMONSTRATION

CEI has a record of success in tax credit financing for community development projects, especially using the Community Development Corporation Tax Credit program. In 1993, Congress enacted the Community Development Corporation Tax Credit program governed by Section 13311 of Title XIII, Chapter I, Subchapter C, Part II of the Omnibus Budget Reconciliation Act of 1993. The CDC Tax Credit provided 20 CDCs across the country with a 10-year, 5 % per year credit for up to $2 million in activity. In certain instances, a taxpayer also received a deduction for a charitable contribution to a CDC under the CDC Tax Credit. CEI was chosen as one of the sites for the Credit.

With the assistance of Local Initiatives Support Corporation (LISC), we mobilized a $2 million investment from KeyBank in Cleveland, Ohio, a bank also active in the Maine's small business market. These funds capitalized a small business loan fund and provided operating support to start up the fund.

The real story, of course, is not just the innovative way in which we captured private capital to build our strength for community development. The real story is in the outcomes. As a result of the $2 million, we leveraged several million dollars from other sources, primarily banks and financed 21 small businesses -child care centers, fish processing facilities, alternative home-care services, and other ventures that created employment for low income families. Over 500 jobs were retained/created in the program.

Here are some relevant impact statistics:

HUD CDC Demonstration

Impact to date

Amount of Capital	$2,000,000
Loan fund amount	1,800,000
Cost of funds to CDC	3.2%
Funds for operations	200,000
Number of businesses/loans	21/28
Job impact created/sustained	500
Average interest rate	9.5%
Range of term of loan	5–15 years
Average term of loan	7 years
Use of funds	primarily working capital building and equipment

One story worth noting is a project called Faithworks in Lewiston aimed at employing the hardest to employ. Fr. Bill Baxter of Faithworks in Lewiston, Maine created a job shop assembly operation performing contract work such as stuffing sample bags you find in your Sunday newspapers. It provides employment for welfare recipients who needed entry level jobs from which to grow. Over 600 people have participated in the program. On location at the space in the former mill complex, representatives from the Workforce Development Center stand by to recruit workers for more specialized training and job placement. Funds from our pool of capital helped this project in its early start up period.

There are many other successful ventures, but the point is that the community development entity in this case acted as the catalyst and money manager to move capital from one place to a place of need. This is the NMTC at work.

The New Markets Tax Credit will build off of the proven success of the Low Income Housing Tax Credit and the CDC Tax Credit to leverage private investment funds for underserved communities. The network of community development entities already exists. This new tool would enable CDEs to expand significantly their ability to attract private capital for economic development activities in these communities.

RECOMMENDATIONS FOR THE NEW MARKETS TAX CREDIT

The Coalition endorses the New Markets Tax Credit proposal and applauds the Administration and Congress on their efforts to encourage private sector investment in low-income communities. We recommend three changes based on our experiences working in poor communities. These recommendations are intended to make the proposal more effective. Specifically, the three recommendations involve the targeting, the term, and the demonstration of ability to use the Credit.

Targeting

The New Markets Tax Credit proposal requires that a community development entity document its ability to provide investment capital to low-income communities. These communities are defined as census tracts with poverty rates of 20 percent of median family income, or with median family income that does not exceed 80 percent of the greater metro, non-metro, or statewide area median family income. Empowerment zones and enterprise communities also qualify.

While this formula includes 40 percent of the communities around the country, it will exclude many pockets of poverty and populations of low-income people living within census tracts that do not meet the criteria. For example, this limitation would make it difficult for many community development entities serving low-income rural populations in the Midwest or Northeast who live within census tracts that do not reflect high levels of poverty.

My home state of Maine is an example of a state left out by census tract targeting. For example, when we applied for the HUD CDC tax credit, similar distress factors were required, that is, poverty where residents did not exceed 80% of the area median income. This left only a smattering of parts of Maine eligible. If I could show you a map of Maine -with 1.2 million people spread out over 33,000 square miles, 3,500 miles of coastline, and the 3rd most rural in the nation -patches of poverty would show up around Lewiston, Portland, north in Aroostook County, downeast in Washington County, and some other locations. There would be no correlation of distressed census tracts to either population, labor markets, or how businesses and markets functions.

We recommend therefore that the NMTCl give CDEs the option of targeting their development activities to a qualified investment area or to a qualified target population, defined as individuals who are low-income or otherwise lack adequate access to loans or equity investments. I ask you to note that this condition already exists in S.1526 bill. In this bill, the Secretary of the Treasury has the discretion to take the target populations as defined by section 3(20) of the Riegle Community Development and Regulatory Improvement Act of 1974, and to treat them as low-income communities under the New Markets Tax Credit program.

By giving applicants the option of targeting place or population, funds may be targeted to individuals and areas in need while allowing development organizations the flexibility to serve effectively low-income populations that fall under the screen of census tract data.

Term

Our second concern is the length of the term of the Credit. The Coalition proposes to extend the term of the Credit from five years to up to ten years, without increasing the cost of the program. Economic development is a long-term process. Consider conforming uses of capital, such as revitalization of an idle mill complex, which certainly represents the kind of challenges we face in New England small towns. Much longer terms are required. Even equipment financing could benefit from 7-year terms. Consider a limited partnership. We established a for profit social investment venture capital firm and raised $5.6 million from 23 investors. They included Fleet, Key, Peoples Heritage, and other community banks, along with foundations and private investors. The minimum holding time for an investor is 10 years. Our equity firm places smaller sums of capital in businesses that fall off the radar of big venture capital/high tech investors.

Our experience has shown that anything less than seven years, for an equipment loan to a start-up company or small venture capital firm for example, is not practical. Most small business will not be able to make the profit necessary to repay the loan fully in five years.

At Coastal Enterprises, we have 500 loans outstanding. Of these loans, 70 percent have terms of at least seven years, and 15 percent of all of our loans are over 10 years. Under the CDC Tax Credit described above we were able not only to make 25 loans for working capital and equipment, but also to support a diverse set of beneficiaries including day care centers, fisheries, health care facilities, food cooperative, and biotech companies.

The experience of Kentucky Highlands Investment Corporation and the Local Initiatives Support Corporation sheds a similar light. During Kentucky Highlands's 30 years in community development venture capital, many loans that began as seven-year loans were extended because the small businesses needed longer loans with fixed rates. In it current portfolio of 58 loans, almost three-quarters are at least seven years in length.

The Retail Initiative, an equity investment fund established by the Local Initiatives Support Corporation, invests in new supermarkets sponsored by community development corporations in distressed urban neighborhoods. Small businesses occupy satellite space around the supermarkets. The Retail Initiative invests for a ten-year holding period, which is necessary for the supermarkets to generate the requisite cash flow and market valuation on which the investment is based.

For these reasons, we support a seven-year tax credit at six percent over per year for New Markets, as contained in S.1526.

Demonstration of Capacity

Our third recommendation is to include language in the bill that identifies the criteria to be used in making allocations to community development entities. The current legislative proposal includes the screening of a community development entity to ensure that its primary mission is to serve low-income communities and that it has a targeted area of service. We propose four recommendations:

1. *We propose that each community development entity (CDE) be required to submit a comprehensive business plan, outlining its mission, goals, and capacity, as well as a five-year development strategy, when applying for Credit allocations.* This is consistent with the requirement to secure eligibility under the CDFI program. We are a professional industry with ever-sharpening standards of excellence in our practice of community development finance. We want to be certain the Credit is allocated to achieve the intended outcomes. The CDE would then be evaluated on its financial capacity, management team's capacity, community development track record, and its projected community development impact. It is critical that the Treasury Department have the ability to screen applicants effectively and assess their capacity and commitment as community economic developers, as well as their understanding of the market.

2. We also support *giving priority* to applicants that can demonstrate exceptional capacity and experience in community development, including relationships with private sector investors and a plan to market the Credit to these investors. Those entities that are "ready-to-go" i.e. have an established loan or investment fund, a promised investor, and/or prepared business deals, should be given priority.

3. In addition to these basic criteria, *we recommend that there be language to ensure national coverage for the program.* This provision must ensure geographic diversity and a balance between urban and rural development entities in granting allocations.

CONCLUSION

The community development field is prepared to use the New Markets Tax Credit to help ensure more Americans have a chance at economic fulfillment. The lower income and working people of this country are part of a phenomenon that some are calling growth without prosperity. In a time of great wealth creation, it is the right time to create new opportunity for those who have not shared in our recent economic success. The NMTC is designed to direct capital from the private market to new market opportunities with modest incentives. We have experience, we have a network, we have untapped potential.

I wish to thank you for the opportunity to address you today. I would like to emphasize the community development industry's strong support for the New Markets Tax Credit. I also appreciate your consideration of our three concerns regarding the Credit, those being enlarging the target area to include population, extending the term to seven to ten years, and requiring the demonstration of capacity by community development entities.

Thank you.

Chairman HOUGHTON. Thanks very much, Mr. Phillips.

I have the honor, the way Mr. Allen did, of introducing a constituent of mine, a lovely lady, Rebecca Brumagin. It is a pleasure to have you here, Rebecca.

Rebecca is a former Town Councilman, Town Clerk, Executive Director of a very important achievement center, a children's rehabilitation agency in Erie, Pennsylvania. She also is the owner of a business, Legacy Designs and Gift Shop in Findley Lake. She has a distinguished educational record. She is married to Dennis and have two sons, Lex and Tyler, and two granddaughters, Emily and Elizabeth.

The redevelopment of Mina is a direct result of the tremendous work which you have done there and we are honored to have you here. Please go ahead with your testimony.

STATEMENT OF HON. REBECCA N. BRUMAGIN, SUPERVISOR, TOWN OF MINA, FINDLEY LAKE, NEW YORK

Ms. BRUMAGIN. Thank you very much.

Chairman Houghton and members of the subcommittee, thank you for this opportunity to speak to you about the success we have seen in our town. It is the Town of Mina, Findley Lake, New York. Let me tell you a little bit about that community.

I am going to summarize my testimony, so I ask that the written testimony go into the record.

Findley Lake is located the western part of New York State in Chautauqua County. I don't know if you are familiar with that county or not, but that county has quite a jewel. It has Chautauqua Institution. You may have heard of this internationally renowned cultural center. It is the place where President Clinton prepared for the presidential debates just a few years ago.

The entire county is really not as affluent and as privileged as Chautauqua Institution is. Our rural community has really struggled, particularly in the last 10–20 years with how to turn ourselves around. You do have an exhibit before you in a navy blue book and there are some photos in there that I would like to share with you.

The first photo is from 1991 and shows what the downtown of our small community looked like at that point in time. As you can see, there are sofas, chairs, the place is really a shambles. Again, we are talking about a community of 1,100 people, a small downtown of only two blocks. This is our main street. The photo below it from the year 2000 shows you that same building converted into a victorian gift shop.

The third page shows you a building that has a lot of history in our community. It was a livery, a gas station, a supermarket and in 1996, this is what this building looked like in the downtown of our community. Below it, two years later in 1998, it was renovated and as you can see, it is really very nice.

When we think about how did this happen, I know you are talking about tax incentives, I want you to know that this small, rural community did this by ourselves. We did not do this with any tax incentives, we did it through a cooperative effort of people really caring about a community and taking the steps, on their own, to invest in a very risky way, their life savings sometimes so that they could develop businesses in our community.

It really started because we had a couple of people in our community who said, this is a beautiful community and we have the opportunity to change it around. They invested and spoke to other potential business owners and little by little, people started to invest in this community. Based on the success they were seeing, the merchants got together and realized that a cooperative effort was really important. They spoke with the Chautauqua County Visitors Bureau and used them for public relations and started creating signature events for our community to draw people in there on a regular basis. Those have been extremely successful.

We had visitors come to our community who say I was here five years ago and this place was a shambles. How did this community turn around? Who did it? The real answer to that is not one individual person. The answer to that is we did it as a community.

Local government was really not involved in the renaissance of this community. Until a couple of years ago when an opportunity came before us, our elementary school closed and as you can well imagine in a small community with only 1,100 people, when we lost our elementary school, we lost a very important asset. We used that as an opportunity to come together, to develop a community center and to start assessing who it is we are and what assets we have and how we could develop those assets.

In the last two years, we have made incredible strides. We have developed a pre-school program that is in the process of becoming an integrated pre-school, a pre-school for children with disabilities along with children who do not have disabilities.

We do have a high degree of poverty in our community. Of the 14 children who attended that pre-school last year, 11 of them were low income and could not afford to pay the $40 a month to send their child to the pre-school. So we were able to get scholarships for those 11 children.

In addition to that, we have developed a senior citizens group and they are active, they are vital and are just incredible in our community. They work on beautification projects and have been thoroughly enjoying themselves.

We have an older constituency, so when I think about that community, I think about the place where I was raised, it is my hometown, but also the fact that the people I am accountable to many are senior citizens and they think of me as their daughter. They pull me off to the side and tell me what they think about how we are doing and what else we need to do.

For the first time in our community, we are going to have a public library and we are excited about that. We have just received a charter from New York State and are going to be opening that library on Memorial Day, May 29, 2000.

Also, our lake that was created out of two ponds in the early 1800s, happens to be the very beginning of the West Branch of French Creek. Our lake is created through underground springs, so the West Branch of French Creek starts there. If you are familiar with French Creek, you will know that it is the most ecologically diverse stream in North America. There is a lot to offer the community by bringing people in to see our nature center.

With that, I would say that our community has really accomplished what it has accomplished through working together, not through one segment of the community at the expense of another segment. Individuals step forward, they are asked to help and they do that on a regular basis.

With that, I would say to you that the tax incentives you are contemplating, I think are extremely important. Pilot projects I think are extremely important. For a community to have a positive result, they need to have success. They can build on that success, it is contagious and I think the tax incentives you are considering are the types of things that help a community have a small success that eventually builds into a large success.

Thank you very much.

[The prepared statement follows:]

Statement of Hon. Rebecca N. Brumagin, Supervisor, Town of Mina, Findley Lake, New York

Chairman Houghton and members of the subcommittee, thank you for this opportunity to testify before you regarding the success in recent years of revitalizing the hamlet of Findley Lake in the Town of Mina, New York State.

This is a great honor for our community and I am grateful for the opportunity to share with you my perspective on how our small town, through hard work and the cooperative efforts of many, has become energized and revitalized.

Background:

Findley Lake is located in the Town of Mina and County of Chautauqua in western New York State. With 1100 permanent residents in the town, it is the first community you enter when traveling east on Interstate 86 from Pennsylvania and it is the Southern Tier Gateway to New York State.

Findley Lake was founded in the early 1800s by a Scottish pioneer, Alexander Findley, who out of necessity to power his sawmill created the lake by constructing a dam at the north end of two ponds. The lake has four small islands and covers an area of approximately 300 acres with a distance of 5 miles to walk or ride around it. The lake is used for recreational activities in the summer such as swimming, boating, water skiing and fishing as well as in the winter with ice fishing and snowmobiling.

Findley Lake is uniquely situated in close proximity to some important regional assets. Four miles from the town is Peek'n Peak, a four-season resort. Fifteen minutes away on Chautauqua Lake is the internationally renowned cultural center, Chautauqua Institution. Lake Erie is 15 minutes away and Presque Isle State Park in Erie, Pennsylvania is 30 minutes from the hamlet. Findley Lake is easily accessible from Interstate 90, Interstate 79 and the newly designated Interstate 86.

Findley Lake along with other nearby towns experienced a significant decline in retail business in the last few decades. We are part of America's rustbelt, and with family farms disappearing over the years, we have been struggling to find our place in the service economy. In the early 1990s, the downtown area of Findley Lake was run down and many of the buildings were in disrepair. One of the former storefronts was converted into slum apartments and there were trashed sofas and chairs on Findley Lake's Main Street. It was an embarrassment to the community yet no plan was developed to improve and reinvigorate downtown. There was little retail trade to keep local shoppers in the community and it seemed a pipe dream to think that the hamlet could one day attract tourists and visitors into quaint specialty shops.

The Renaissance Story:

There were dreamers. There were individuals who saw that Findley Lake could become a small jewel for the region.

One couple owned a small restaurant in town and they decided to move the restaurant into their Victorian home and upscale the menu and the decor. Over time, through their creativity and hard work, they developed a regional following and the restaurant's excellent reputation put Findley Lake on the map. The same couple purchased the slum apartment house downtown and began renovating the building.

They opened a Victorian gift shop and encouraged others to come to Findley Lake and start a retail business.

Others followed and experienced success. One by one, new entrepreneurs developed an idea, invested their savings, and started a business from scratch or relocated their existing business to Findley Lake. After a few years, the enthusiasm became contagious, new ideas sprouted and creative individuals with dreams became willing to invest in Findley Lake. An example of the continued interest in Findley Lake is evidenced by three new businesses that have within the past two months expressed a serious desire to open in Findley Lake.

Findley Lake has become a source of pride for the region.

The downtown Findley Lake merchants represent one segment of a whole community. Revitalization must be in keeping with the character of the community and preserving the rural nature of the Town of Mina is very important to our residents. Long term success takes sustained effort and it takes cooperation among the various segments of the community. Growth and change do not come along harmoniously unless the majority of the community is in agreement with that growth and change. Leadership can make an enormous difference in assisting a community with identifying and attaining its goals.

Developing a Sense of Community:

The hamlet of Findley Lake and the Town of Mina is a community. Community is about people, their dreams and their desire to live in a place where they have an opportunity to be successful and to enjoy life. It is said, "If you don't work where you live, you eventually will live where you work." It is important to look beyond economic success and think in terms of quality of life when assessing the success of a community.

The renaissance of Findley Lake over the past few years is a story about more than economic success. It is about people coming together and truly appreciating one another. Visitors to Findley Lake regularly ask questions such as, "Who did all this? It wasn't like this when I was here 5 years ago." The answer is, we all did it—it is truly a community accomplishment.

I attribute our current success to the efforts of many individual citizens as well as to three groups (many individuals participate in more than one group). Business leaders, local government officials, community organizations and civic-minded individuals have worked cooperatively to achieve community success and have identified additional needs to develop Findley Lake in a cohesive manner consistent with our recently developed comprehensive plan. At a recent appreciation dinner for individuals who support our town, almost 10% of our population attended. This illustrates that in a small town, it takes a high percentage of its people to make the community work.

Business Leaders:

The evolution of Findley Lake to a retail shopping and tourist destination can be traced back to those individuals who had a vision of Findley Lake as a diamond in the rough and individually promoted it to others. The businesses that came to Findley Lake did so with no support other than their own initiative. The promotion of Findley Lake took place by word of mouth from business owner to potential business owner, and it eventually became an articulated and shared vision for the community.

The Findley Lake Area Chamber of Commerce was formed and this was a catalyst for further development and promotion of the area. Utilizing the advertising and public relations resources from the Chautauqua County Visitors Bureau, the downtown merchants in the chamber began promoting Findley Lake through events. Merchants work together cooperatively and duties are divided among the members who take turns chairing and organizing the events. They have developed signature events such as entertainment every Wednesday night in the summer entitled "Live at the Gazebo," a Harvest Festival, May Day, First Sundays and more. They assess what works and build on it and they are flexible enough to change what doesn't work well and improve on it for the future. An annual brochure is prepared and events for the year are listed. Community organizations are invited to include their fundraising and other events in the brochure.

Local Government:

Local government became actively involved in the renaissance of Findley Lake when an opportunity arose out of the controversial closing of the community's elementary school in 1997. The community rallied around the concept of purchasing the building and developing a community center. Negotiations with the school district were very cordial and the voters in the Town of Mina agreed to the purchase effective June 1998. That decision led to the development of various community initiatives in the past two years which continue to enhance and support the broader view of community success.

In November 1999, the Town Board of the Town of Mina adopted a mission statement. The essence of the statement is that the town will support efforts that enhance the quality of life while preserving a rural way of life; that diverse interests of the community will be taken into consideration when making decisions; and that all parties will approach issues in an atmosphere of mutual respect and cooperation.

In January 2000, the Town of Mina adopted a Comprehensive Plan that lays out the priorities for the community including lake quality and infrastructure as well as the need to further improve the downtown with signage, public restrooms, parking and community beautification efforts. The Planning Board for the town is actively rewriting the zoning law and the town board has stepped up enforcement of the current zoning law. These are important steps in preparing for our future.

Community Organizations:

The community has some long standing and supportive community organizations such as the Findley Lake Volunteer Fire Department and Auxiliary, Girl Scouts, the Findley Lake Property Owners, and the Findley Lake and Mina Historical Society. These active groups have consistently supported the community in numerous ways over the years.

Findley Lake is very energetic and there are many initiatives on the horizon that are being pursued and supported by the community. In the past two years, the following organizations have been developed to further enhance the Findley Lake and Mina region:

Findley Lake Early Childhood Center (a service of the Achievement Center) —An Erie, Pennsylvania non-profit organization with over 75 years of service to children with disabilities agreed to develop services for children in Findley Lake. They are running a preschool and are pursuing state approval for an integrated preschool for children with and without disabilities as well as providing various types of supportive therapies for children.

Young at Heart—A local senior citizens group formed in the fall of 1998 and they meet weekly. Besides social and leisure activities, they are a county congregate meals site and they work on beautification projects at the community center.

Alexander Findley Community Library—After two years of effort, this group recently received their charter from New York State to open a public library in the Town of Mina. The library will have its grand opening on Memorial Day, May 29, 2000.

Findley Lake Nature Center—This group has recently filed for incorporation. Their goal is to promote the natural resources of the area. Findley Lake is the beginning of the west branch of French Creek, the most ecologically diverse stream in North America. The group will develop nature trails behind the community center and is working with local universities to prepare a bio-diversity study.

Quality Findley—A group of enthusiastic individuals formed Quality Findley in May 1999 to fundraise and promote the long-term viability of Findley Lake. They are establishing an endowment fund with a local community foundation and have an ambitious goal of $1 million dollars to be raised in 5 years. Within their first year they have pledges totaling $175,000.

Civic-minded Individuals:

Listed below are three examples of the commitment that individuals have shown to improving the quality of life in the Findley Lake area:

A "Community Challenge" started with one individual offering $5 to start a fundraising effort for a memorial flagpole. It resulted in the completion of a flagpole, the development of a community flag and the donation of a United States flag by our U. S. Congressman, the Honorable Amo Houghton. A flag that flew over the Capitol Building now proudly flies over Findley Lake each Memorial Day.

Water Wheel Committee—After the completion of the memorial flagpole, the symbolic $5 was turned over to the community this time with the challenge to build a water wheel at the same location where our founder, Alexander Findley built his water wheel. The challenge was accepted and in August 1999, as part of the celebration of the 175th anniversary of the town, a water wheel was built with volunteer labor. The water wheel is an attraction to the community and a source of pride for the area.

Tapestry Newsletter—Part of the glue that binds our community is a biweekly newsletter that was developed by two individuals in September 1998. The purpose of the newsletter is to promote a sense of community by informing readers about the various activities that take place throughout the town and the region. The byline for the Tapestry is "Our Lives Are Interwoven." The Tapestry is free and there are no paid advertisements in the newsletter, it is completely supported by individuals who offer a small contribution to cover the cost of printing. About 400 copies are distributed of each issue.

People in Findley Lake are friendly, welcoming and eager to work together. They rise above political and personal undercurrents. They truly have a sense of community and they promote the town through their warm enthusiasm.

Community Needs:

Findley Lake is a unique community currently experiencing a small amount of economic and community success. I am grateful for the opportunity to be involved in my hometown of Findley Lake in various capacities and to work with the many individuals who take pride in our town and are committed to its success.

However, even with our success to date, we have significant needs that if go unmet will limit our ability to sustain our success into the future. Tax incentives could make a significant difference to us. We have immediate and long term needs including:

- a main street manager to organize and promote events,
- infrastructure (water and sewer),
- funding to improve and maintain lake quality,
- a state tourist information/welcome center at I–86,
- parking, public restrooms, underground utilities, and support for community beautification projects,
- a bank,
- medical and pharmaceutical services,
- senior housing and
- financial support for retail shops, restaurants and other compatible businesses.

We have worked diligently as a community and we have tapped our individual and collective resources and need support to further advance our town.

In Closing:

Small town America conjures up thoughts of simplicity, pureness and beauty that can touch the heart and soul and rejuvenate the spirit. Rural America can inspire freedom, creativity and independence. However, there is often a shortage of resources in small towns. Without adequate resources and incentives, many of America's small communities have stagnated and they are really struggling.

Financial assistance through tax incentives can help a distressed community that is attempting to address the challenges of turning itself around. Communities can become energized and revitalized if they work collaboratively to assess their strengths, are realistic about their needs, and articulate and work diligently toward a common vision. Improvement in a community is the result of one small success followed by another. Vital ingredients in the process are mutual respect, cooperation and perseverance. They also need financial incentives to help pull themselves up by the bootstraps so they eventually can become economically self-sufficient.

For those communities who are struggling, tax incentives may be the catalyst to bring people together to develop a common goal and to begin to experience success. Without incentives, those towns may continue to deteriorate as business leaders, local government officials and community organizations do not have the tools to implement positive change. It can be frustrating to live in a depressed community where there is very little hope of change.

I applaud the subcommittee for your interest in developing tax incentives that will help rural communities. I wholeheartedly support tax incentives for small businesses and communities. I recommend that you also consider developing or expanding pilot projects that can assist small rural communities in their desire to succeed.

Thank you again for allowing me to share the story of one small American community.

Chairman HOUGHTON. Thanks very much.

Mr. Wallace?

STATEMENT OF HON. A. BRIAN WALLACE, CHAIRMAN, WASHOE TRIBE OF NEVADA AND CALIFORNIA, AND PHOENIX AREA VICE PRESIDENT, NATIONAL CONGRESS OF AMERICAN INDIANS, GARDNERVILLE, NEVADA

Mr. WALLACE. Thank you, Mr. Chairman.

My name is Brian Wallace. I am Chairman of the Washoe Tribe of Nevada and California and also have the privilege of representing the National Congress of American Indians, which is the oldest national Indian organization in the country.

On behalf of Native America, I would like to extend our regards and prayers to you and the members of the committee.

In the discussion about tribal economic development, there are four areas I would like to concentrate on. First is the necessity for a bipartisan approach to this particular issue. In some sectors of our country and in Native America this is a matter of basic survival so it is very important to us.

Also, I would like to talk about some basic, fundamental principles that need to be articulated throughout this discussion, highlight current statutes that provide incentives to investment in Indian country that actually come due and potentially expire in 2003 and 2004 and comment on some of the proposals before this body.

On the discussion of the need for bipartisan legislative processes, I guess a retrospective analysis of the current economic expansion this country has enjoyed but in Native American it is somewhat of an alarming issue because the difference between hope and prosperity is growing even wider. It is something that concerns us very much. We really appeal to this body and this committee in particular that maybe can achieve in working together to find this divine earnestness on taking the serious nature of this discussion and the work before us.

The Census Bureau recently certified that the upgrade in terms of personal economics and family economics across America has not been arrived in Indian country at all. That is something that is of grave concern to us.

We would also like to recognize the leadership of Representatives Watts, Talent and Rangel in finding the courage and leadership to actually speak on behalf of people who really do not have a strong voice in this particular discussion today.

We are encouraged by the commitment of Speaker Hastert to move legislation this year and we really appeal to this committee and subcommittee to leverage all of the talent and technical expertise you have in helping us in this discussion.

On the question of principles, I would like to highlight four basic areas. First and prompt is respect for tribal sovereignty. In the national discussion about economics self-determination and the role of governance, there is always historically a significant omission of including tribal governments in a national community of governmental efforts. It is something we continually have to point out and work very hard to show that there is meaning and effort behind that.

On the question of presumption of status and some of the perspective solutions that are being talked about, we are fearful that we don't codify the differences between Indian country and its developmental interests and other parts of America. We would certainly be handicapped by having to compete for special designation and incentives being discussed before the committee.

Another thing we would like to point out is the role of non-profit organizations and the governmental role in development in our community which is dominated by these basic entities, historically and also in the future particularly in assisting us in matchmaking and development opportunities and providing incentives for investment. The access to capital is critical.

Under current statute, the Omnibus Budget Reconciliation Act of 1993 codified two particular and worthwhile incentives—the Indian employment credit that provides incentives for employment of tribal members and new employment on reservations outside of certain parts of the development sector and an incentive for accelerated appreciation to provide incentives for private investment in business property on Indian reservations with certain qualifications.

With regard to the prospective debate related to 815 and 2713 and 2840, prospective legislation, we would like to comment on some proposed modifications, particularly an up-front tax incentive that is needed to channel capital to slower growth and riskier long term investments.

Although the capital gains relief is very important, capital gains relief is very important and provides incentives but we would like to see the credit to be extended provide for investing communities and incentives for investment and not divestment.

We would also be interested in extension and modification of the employment tax credit now codified in the code to provide for flexibility for nonprofits and governmental entities to also take advantage of this particular, and also to revise the community renewal selection qualification process to incorporate respect for tribal governmental sovereignty.

My experience here is somewhat like dealing with the ISTEA legislation where we are exposed to a democratic process where States and qualified small governments vote en masse on particular priorities. It is strange we get outnumbered every time.

I would also like to highlight making tax credits for commercial renovation at technological centers and academies available to all Indian reservation communities who would like to apply, Congressman Portman's initiative but the credit should be more broadly available to encourage commercial renovation and corporate sponsorship of technical education on all Indian reservations regardless of whether they are enterprise zones or enterprise communities, or for that matter, renewal communities.

We are very proud to have the opportunity to be a part of this discussion and to play a meaningful role in the development of a national character that we can be proud of as Indian people but also as Americans. Many people are counting on us to get this right and put the hard work into making a difference in our community.

In closing, I would like to thank you for the attention you have given to this very important area and express how appreciative we are of the meaning behind the work you are doing.

Thank you for the opportunity to appear before the committee.

[The prepared statement follows:]

Statement of the Hon. A. Brian Wallace, Chairman, Washoe Tribe of Nevada and California, and Phoenix Area Vice President, National Congress of American Indians, Gardnerville, Nevada

I. Introduction

Good morning Chairman Hougton, Congressman Coyne, and distinguished members of the Ways and Means Oversight Subcommittee. My name is A. Brian Wallace. I am the Phoenix Area Vice-President of the National Congress of American Indians (NCAI) and Chairman of the Washoe Tribe of Nevada and California. On behalf of NCAI, I would like to thank you for the opportunity to discuss proposed tax incentives to help economically distressed communities which include most Indian reservations.

NCAI is the oldest, largest, and most representative Indian organization in the Country. NCAI was organized in 1944 in response to the termination and assimilation policies promulgated by the Federal Government. These polices proved to be devastating to Indian Nations and Indian people throughout the United States. NCAI remains dedicated to furthering the interests of our 250 member tribes and working on a myriad of policy issues, including the promotion of Indian economic opportunity (both on and off reservations), the provision of incentives for community development, and the attraction of private capital to Indian reservations and trust lands.

NCAI's testimony contains several major segments. First, it reaffirms the need for a bipartisan approach to this and other critical policy issues; second, it articulates basic principles that are most likely to foster genuine economic development in Indian Country; third, it describes the current-law tax incentives for investment and job creation on Indian reservations, both of which are due to expire in 2003 unless extended; and finally, it proposes certain modifications and additions to the distressed community legislation introduced by various members in this Congress.

II. Need For a Bipartisan Legislative Process

The needs of distressed communities in this Country are real and urgent, especially those found in most tribal communities throughout Indian Country. According to the U.S. Census Bureau, about one-third of the nation's American Indian, Eskimo, and Aleut households had incomes that placed them below the poverty line in 1997. And unfortunately, Indian reservations and Alaska villages, like other distressed communities, have been untouched by the recent wave of prosperity that has lifted the fortunes of many United States regions.

To address this need, Representatives J.C. Watts, James Talent, Charles Rangel, and others have taken a leadership role in developing legislation designed to revitalize low-income communities in the United States, such as economically depressed Indian reservations. We understand that such legislation include H.R. 815, the American Community Renewal bill, H.R. 2713, the New Markets Tax Credit bill, and H.R. 2848, the New Markets Initiative bill. We are encouraged that Speaker Dennis Hastert has committed to work with the Administration to move the legislation this year. We are also encouraged by the bipartisan commitment made to foster economic development in distressed communities. We would urge this Subcommittee and the full Ways and Means Committee to lend its strong support and technical resources to the development and passage of a bipartisan compromise incorporating features of all three bills.

III. Principles

In determining what is most likely to foster economic development in Indian Country which is mostly still characterized by high unemployment and pervasive poverty, we believe that it is important to adhere to the following principles:

- *Respect for Sovereignty:* Indian tribes enjoy the powers of self government, including the regulatory control of economic development on their lands, in the same manner as State and local governments.
- *Presumption of Status, Not Competition:* Indian communities with high unemployment and poverty rates should not be forced to compete with each other or with similarly situated communities for tax incentives.
- *Role of Nonprofit Organizations and Governmental Entities in Development:* The legislation should recognize and reward the significant role that tribal governments and nonprofit organizations play in Indian Country economic development.
- *Access to Capital is Critical:* In order to stimulate economic development in Indian communities, tax incentives must be designed to increase the flow of loan and equity capital to these communities.

IV. Current Law

The Omnibus Budget Reconciliation Act of 1993 (OBRA) contained two provisions providing special tax incentives for job creation and investment on Indian reservations. These provisions were added to the OBRA incentives for Empowerment Zone/Enterprise Community investments in recognition of the widespread poverty existing on most Indian reservations and to spare Indian communities from having to compete with other communities or among themselves for such tax incentives.

Indian Employment Credit. The purpose of this credit is to provide incentives for the employment of tribal members in new employment on Indian reservations other than gaming. Effective January 1, 1994 through December 31, 2003, employers may claim a nonrefundable income tax credit for 20 percent of the wages and health benefits (up to $20,000) paid to an enrolled member of an Indian tribe, or the member's spouse, so long as the employee works on a reservation (and lives on or near that reservation) and is paid wages that do not exceed $30,000 annually (this amount is updated annually for inflation after 1994). Under this provision, an employer may receive a credit worth a maximum of $4,000 for up to seven years, for a total of $28,000 per employee. The credit is not available for gaming-related employment.

Accelerated Depreciation. The purpose of the accelerated depreciation provision is to provide an incentive for private investment in business property on an Indian reservation. "Qualified Indian reservation property" and "qualified infrastructure property" are eligible for accelerated depreciation. To meet the requirements for "qualified Indian reservation property," the property must: (1) be used predominantly to conduct business within an Indian reservation; (2) not be used or located outside the Indian reservation on a regular basis; (3) not be acquired by a party who is related to the taxpayer under IRC § 465(b)(3)(C); (4) not be used for conducting gaming activities; and (5) be between 3-year and 20-year property, or nonresidential real property. The provision is effective for property placed in service on or after January 1, 1994, and before December 31, 2003.

To meet the requirements for "qualified infrastructure property," the property may be located outside the Indian reservation, so long as the purpose is to connect with qualified infrastructure property located within the reservation (e.g. roads, power lines, water systems, railroad spurs, and communications facilities).

V. Legislation to Spur Indian Country Development

We have reviewed and summarized the three leading proposals, H.R. 815, H.R. 2713 and H.R. 2848. Listed immediately below are proposed modifications and comments on the various components that tribal governments would like to see incorporated into the bipartisan compromise package:

- *Include a Tax Credit for Investments in Community Development Entities.* The proposal in H.R. 2713 and H.R. 2848 to provide tax credits for equity investments in certified "community development entities" should be incorporated into the bipartisan package. An up-front tax incentive is needed to channel capital into slower growth and riskier long-term investments. Although capital gains relief may provide some assistance to entrepreneurs when they eventually liquidate their investment, the tax credit will provide a stronger initial incentive to invest in distressed communities.

Comment: In order to spur effective partnerships in Indian Country and other disadvantaged communities, the tax credits should be fully available to taxable investors in joint ventures with nonprofit and/or governmental entities.

- *Extend and Modify the Indian Employment Tax Credit.* The current tax credit for increasing employment of tribal members should be extended and modified. The credit should be modified to allow employers the choice of using the credit to offset either corporate income taxes or payroll taxes. This election would allow the credit to be utilized by governmental and nonprofit employers, as well as by for-profit companies. In extending the credit, Congress should also direct the IRS to administer the enrolled tribal member requirement in a flexible manner. Current IRS Form 8845 instructions imply that an employer must obtain a copy of the tribal government's enrollment list. Such information is considered highly proprietary which has discouraged some employers from utilizing the credit.

H.R. 815 would extend and modify the current Work Opportunity Tax Credit to apply only to Renewal Communities. Under this proposal, employers could receive a credit worth 15 percent of up to $10,000 for first-year wages and 30 percent of up to $10,000 for second and third year wages. There are three major distinctions between this proposal and the Indian employment credit available under current law. First, H.R. 815 would apply to wages only, not to health benefits. Second, the amount of the credit is less—an employer could receive a credit worth a maximum of $1,500 in the first year and $3,000 in the second and third years, for a total of

$7,500 per employee. Third, the employee receiving the benefit must live in, not merely near, the Renewal Community.

Comment: The employment credit in H.R. 815 is too restrictive. It should be supplemented by extension and modification of the Indian employment credit.

• *Revise Community Renewal Selection and Qualification Process to Incorporate Respect for Tribal Governmental Sovereignty.* Tribal governments should not have to be nominated by a State government in order to be considered for selection as a renewal community. H.R. 815 is unclear on this point. In addition, tribal governments should not be expected to set aside regulatory or environmental standards in exchange for favorable tax treatment.

• *Make Tax Credits for Commercial Renovation and Technological Centers and Academies Available to all Indian Reservation Communities.* H.R. 815 includes a 20 percent tax credit for the cost of renovating commercial buildings located in a renewal community. Similarly, the President's FY2001 proposed budget, in the section entitled "Bridging the Digital Divide," includes a 50 percent tax credit for corporate sponsorship of qualified zone academies, public libraries, and community technology centers located in empowerment zones ("EZs") or enterprise communities ("ECs"). Both of these tax credits should be made available more broadly to encourage commercial renovation and corporate sponsorship of technical education on *all* Indian reservations, regardless of whether they have been designated as an EZ or EC or Renewal Community.[1]

• *Tribal Government Tax-Exempt Bond Authority.* Tribal governments themselves need expanded access to capital for a variety of economic development purposes. Under current law, tribal governments are virtually hamstrung when they try to make a tax-exempt bond offering. Provisions similar to those contained in H.R. 1946 should be incorporated into the legislation. *See* Attachment A (summary of H.R. 1946).

• *Provide Development Accounts to All Working Poor Individuals and Families, Regardless of Where They Reside.* H.R. 815 limits "family development accounts" to individuals residing in a designated renewal community. Development Accounts should be provided to all individuals that meet the income criteria.

VI. Conclusion

Mr. Chairman, thank you for the opportunity to present testimony on proposed tax incentives to help economically distressed communities. In this time of unprecedented prosperity found throughout most of the United States, Indian communities must be accorded the same opportunities for prosperity as the rest of the Country. NCAI believes that the comments and recommendations provided in this statement will assist in addressing the economic disparity found throughout Indian Country, and we look forward to working with this Congress in the development of tax incentives that would correct this critical situation. Tribal governments are also very optimistic that a bipartisan approach to addressing this issue will succeed during this session.

I would be happy to respond to any questions you may have.

Tribal Government Tax-Exempt Bond Authority Amendments Act of 1999

H.R. 1946, Introduced by Congressman Shadegg May 26, 1999

H.R. 1946 would give Indian tribal governments and tribal business ventures expanded access to tax-exempt financing through the following Internal Revenue Code amendments:

1. H.R. 1946 would remove the "essential governmental function"restriction on tribal governmental bonds. In its place, H.R. 1946 would require that the financed facilities be located on land within or in close proximity to the exterior boundaries of the tribe's reservation.

Reason for Provision: Under current law, tribes may issue tax-exempt governmental bonds only for facilities used in the exercise of an essential governmental function. State and local governments are *not* subject to a similar restriction. The legislative history of this restriction has defined "essential governmental function" narrowly (e.g., roads, sewers, schools). In removing the restriction, H.R. 1946 would enable tribes to issue governmental bonds to finance facilities for tribal use even if

[1] The same broad treatment should apply with regard to the tax deductibility of computer technology/equipment donations. Note: in the President's FY2001 budget, this proposal contains the alternative formulation: "located in an EZ or EC *or* in a census tract with a poverty rate of 20 percent or more.

the facilities do not serve such functions. However, no part of the bond issue proceeds may be used for property placed in service for gaming or casino purposes.

2. H.R. 1946 would allow Indian tribal governments to issue various types of tax-exempt private activity bonds permitted by State and local governments under current law, so long as the tribe maintained a 50% ownership interest in the financed facility. The business would also have to satisfy an employment test that is somewhat different than that of current law.

Reason for Provision: Under current law, tribes may issue tax-exempt private activity bonds only for manufacturing facilities. H.R. 1946 would treat tribal governments like State or local governments, enabling them to issue tax-exempt private activity bonds for various types of facilities, such as facilities used by 501(c)(3) organizations, low-income rental housing, and electric generation, water treatment, and solid waste and sewage disposal plants.

3. H.R. 1946 would exempt tribal private activity bonds from the State volume cap requirement generally applicable to tax-exempt private activity bonds.

Reason for Provision: Tax-exempt private activity bonds issued by State and local governments generally are subject to a population-based volume cap on the principal amount of private activity bonds that may be issued during each year.

4. H.R. 1946 would except tribal bonds from the "federal guarantee" prohibition.

Reason for Provision: The "federal guarantee" prohibition generally comes into play where the borrower relies on future federal assistance to repay the loan. Tribal bond issuances often fail to secure approval of bond counsel or underwriter's counsel because of the level of federal assistance being received by the tribe.

In addition, H.R. 1946 makes an important amendment to the Securities Act of 1933. It would place bonds issued by a federally-recognized Tribal Government on par with those issued by state and local governments by exempting both from federal securities registration requirements.

Chairman HOUGHTON. Thanks very much, Mr. Wallace.

Mr. Reighard?

STATEMENT OF BILL REIGHARD, PRESIDENT, FOOD DONATION CONNECTION, NEWPORT, VIRGINIA

Mr. REIGHARD. Thank you for this opportunity to speak on H.R. 1325, the Good Samaritan Tax Act. In addition to my oral testimony, I would like to include written testimony as part of the record.

This Act would eliminate the uncertainty that exists concerning the tax deduction a company can take when it donates its wholesome, excess food to nonprofit organizations that serve those who are hungry. This would encourage food service companies to make the effort needed to save their excess food which otherwise would go to waste.

This Act has the support of Food Chain and America's Second Harvest as well as the National Restaurant Association and the National Council of Chain Restaurants.

I have worked in the food service industry for 25 years in management positions in operations, quality assurance, product development and technical services. In 1992, I formed Food Donation Connection which is dedicated to ensuring that excess wholesome food that is desperately needed in our communities does not go to waste.

We accomplished this by providing restaurants with an alternative to discarding this excess food by linking them to agencies that help those who are hungry. Our primary client is Pizza Hut who has the largest prepared food donation program in the country. Pizza Hut restaurants have donated over 30 million pounds of excess food to 2,000 hunger agencies since 1992. This program earned Pizza Hut and my company the UPS Foundation Distinguished Service Award from Food Chain in 1994 and Pizza Hut received a national U.S.D.A. Hero of Food Recovery and Gleaning Award in 1997.

We also manage food donation programs for Morrison's Cafeterias, KFC and Taco Bell and are working with other restaurants and chains that are considering donating excess food.

Despite our country's economic prosperity, 36 million Americans, including 14 million children, don't get enough to eat. A report by the Conference of Mayors shows demand for emergency food increasing. The New York Times points out that America's Second Harvest is not receiving sufficient food to meet the demand from their affiliate food banks.

As individuals leave welfare and enter the workplace, they often turn to food banks and other nonprofit, private sector groups for food to help ends meet. At the same time, good, wholesome, excess food is being discarded. However, it costs businesses money to properly save this food.

Recognizing this, Congress included legislation in the Tax Reform Act of 1976 designed to encourage donations of excess food to 501(c)(3) organizations that serve infants, ill or the needy. Section 170 of the IRS Code allows a deduction equal to the donated food basis cost plus one-half the depreciated value not to exceed twice the basis cost. This last limitation, as well as strict receipting requirements, ensures that a company cannot earn a profit by producing food specifically for donation.

Two issues with the existing law discourage food service companies from donating. First, the IRS challenges as an industry coordinated issue any appreciated value placed on the donated food. Many companies are not willing to take on the IRS to gain a deduction to offset the additional cost of preparation, packaging and storage of donated food. They are content to settle for throwing away the food and taking a standard deduction.

Second, current law provides that this deduction is only available to regular C corporations. Many restaurants are set up as limited liability or Subchapter S corporations or sole proprietors and are not eligible for the deduction. The Good Samaritan Tax Act codifies fair market value and makes all business entities eligible for the deduction.

The programs we manage have been successful because they use the tax savings to provide an economic incentive to their restaurant managers for donating. When this incentive is lost, donations drop significantly or stop altogether. We see this repeatedly when restaurants are sold to franchisees that are not eligible for the deduction under current law.

We know that food service donations of wholesome, excess food to private sector, nonprofit hunger agencies works. These donations provide needed food as well as a great source of protein for these agencies. I believe this Act will encourage more restaurants to donate food which will go a long way to solving the hunger problem in America today.

Mr. Chairman, I encourage you and the subcommittee to do everything in your power to enact the Good Samaritan Tax Act this year. Every day we wait, another child in America goes to bed hungry.

Thank you.

[The prepared statement follows:]

Statement of Bill Reighard, President, Food Donation Connection, Newport, Virginia

Good Afternoon. I would like to thank Chairman Houghton and ranking member Coyne, and other members of the Subcommittee for this opportunity to speak on the Good Samaritan Tax Act, H.R. 1325.

This bill, if enacted, will go a long way toward solving the issue of hunger in America. By allowing companies to offset the costs associated with donating surplus wholesome food to hungry Americans, The Good Samaritan Tax Act will encourage more food service companies to make the effort needed to set up food recovery and donation programs. The Good Samaritan Tax Act has the support of the National Restaurant Association, the National Council of Chain Restaurants, and America's leading food recovery and distribution organizations—Foodchain and America's Second Harvest.

MY BACKGROUND:

Since 1992, I have been President of Food Donation Connection (FDC). FDC assists restaurants in providing an alternative to discarding excess wholesome unsold food by linking those restaurants to food rescue programs and agencies that help the hungry. FDC manages the donations of over 4500 restaurants to 1500+ hunger agencies.

Our Mission Statement is from John 6:12, which reads: "When they had all had enough to eat, Jesus said to his disciples, "Gather the pieces that are left over. Let nothing be wasted."

We accomplish this by handling coordination and administration for our client restaurants. This includes determining recipient food rescue programs and handling paperwork, maintaining an 800 number for use by donor restaurants and hunger agencies, tracking and reporting all excess food donations, tax savings calculation and reporting and providing the ongoing follow-up and monitoring necessary for successful implementation and growth.

Prior to establishing Food Donation Connection, I worked for 17 years in the food service industry, holding management positions in operations, quality assurance, product development and technical services.

HUNGER EXISTS IN AMERICA

Despite our country's economic prosperity, hunger is a pressing social issue in America. According to a recent report by Tufts University, 36 million Americans, including 14 million children, live in food insecure households. A United States Conference of Mayors report shows demand for emergency food increasing, and that over 20% of this demand goes unmet. In a New York Times article, America's Second Harvest said they do not receive sufficient food to meet the demand from the member agencies of their network food banks. As individuals leave welfare and enter the work place, they often turn to food banks and other non-profit private sector groups for food to help make ends meet. Layoffs also remain widespread as companies reconstitute themselves to compete in the changing economy.

WHOLESOME EXCESS FOOD IS GOING TO WASTE

At the same time that many Americans go hungry, good wholesome food is going to waste. One of the major reasons this food is not getting to the hungry is because businesses cannot offset the costs of donating it.

It takes management commitment and money to properly save excess food for donation to hunger agencies. Prepared food must be properly saved, packaged, labeled and kept refrigerated or frozen until it is picked up by the agency. Operating procedures and food safety standards must be developed and implemented. Hunger agencies need to be selected and approved, and ongoing pick-up schedules established. A system for donation reporting and tracking must be in place. Tax regulations require strict receipting procedures and limit the type of non-profit organizations that can receive the donation. An example of these requirements as they appear on one of our client's food donation log appear below:

The agency receiving the donation must complete and sign the bottom of this log before it is mailed.
***Mail the signed top (white) copy to**: (Name & Address of restaurant)*
OR *You may **fax** it to 1-000-000-0000 (Toll Free)*. **Questions?** Please call 1-000-000-0000 (Toll Free).

The agency receiving the donated food product from the above restaurant confirms that it was used in compliance with the following requirements.

- **The donated product was used in a use related to our tax-exempt purposes and solely for the care of the ill, needy or infants. The donated product was not transferred in exchange for money, other property or services.**
- **We are a Section 501(c)(3) tax exempt, U.S. nonprofit public charity qualified to receive tax-deductible contributions. We are not a private foundation.**
- **We will maintain adequate books and records to show the disposition or use of the donated product, which will be made available to the Internal Revenue Service upon request.**
- **No goods or services were provided by us in exchange for this charitable donation.**

Agency Name: ____________________

Address: ____________________

City, State, Zip Code: ____________________

Agency Contact: Name:____________________**Signature:**____________________

White Copy: Forward to Restaurant Office **Yellow Copy: Keep in Unit**

A number of expenses are incurred when a restaurant donates its excess food. Based on our experience, provided below is an example of the typical cost associated with food donation programs. Note that costs will vary from company to company based on type and value of food donated, the type of storage containers needed, storage method and other factors. This example assumes the value of the donated food to be two times cost. Costs represent a percentage of tax savings. Since the tax incentive is a deduction (as opposed to a credit) a company must be profitable to realize any tax savings. Two tax rates are used in this example.

Program Cost Item	Cost: % of tax savings at 35% Tax Rate	Cost: % of tax savings at 15% Tax Rate
Storage & Transport Containers	4%	9%
Restaurant Manager Bonus Costs	10%	10%
Employee Labor to Save Food	10%	23%
Management oversight	3%	7%
Program Management	15%	25%
Company Incentive After Costs	58%	26%

To increase Donations, Companies must be able to offset costs

Obviously, if we are to encourage food service companies to donate rather than discard usable surplus food, we need to allow them to offset the costs of doing so. In fact, Congress did include legislation in the Tax Reform Act of 1976 designed to help companies offset the costs of donating food to 501(c)(3) organizations that serve infants, ill or needy. Section 170 of the IRS Code allows a deduction equal to the donated food basis cost plus ‡ of the appreciated value, not to exceed twice the basis cost. This last limitation, as well as strict receipting requirements, insures that a company cannot earn a profit by producing food specifically for donation.

Example Calculation of Incentive Provided by Tax Reform Act of 1976

The Tax Reform Act of 1976 allows regular © corporations that donate excess food to certain specified 501(c)(3) non-profit organizations that serve the ill, infants or needy to take an incremental deduction for donated food. Strict receipting requirements must be met to take the incremental deduction

Example of potential tax benefit—

	Product Sold	Surplus Not Donated	Surplus Donated
• Sales revenue	$1.00	$.00	$.00
• Base cost (food & direct labor)	.35	.35	.35
• Gross margin/(loss)	.65	(.35)	(.35)
Incremental tax deduction	–	–	33*
Total income/(deduction) for tax	.65	(.35)	(.68)
• Tax (assumes 35% rate)	(.23)	.12	.24
• Gross margin/(loss) after tax	$.42	$(.23)	$(.11)

In this example, donating reduces the after tax cost of surplus by 52%. The company still loses money on the donated food. The amount of the loss is reduced.

*Incremental deduction is one-half of the foods' appreciated value (FMV less base cost) however base cost plus the incremental deduction cannot exceed twice base cost.

PROBLEMS WITH THE CURRENT LAW EXIST

While the food donation provisions of the 1976 act were well intended and designed to encourage companies to donate food, two problems exist today that actually *discourage food service companies from doing so.*

First, the IRS challenges, as an industry coordinated issue, any appreciated value placed on the donated food. The uncertainty of the value of their deduction prevents many companies from investing in and incurring the costs of food donation programs. In fact, *under current IRS interpretation, it actually makes more financial sense for a company to throw away excess food rather than donate it.*

Second, this deduction is only available to regular 'c' corporations. *Many restaurant companies are set up as limited liability or sub-chapter's corporations or sole proprietors and are not eligible for the deduction.*

THE GOOD SAMARITAN TAX ACT ADDRESSES THESE PROBLEMS

This Good Samaritan Tax Act restores some common sense to our tax code by addressing these two issues.

First, the Act clarifies the determination of fair market value when internal company policies relating to the treatment of food are also involved, ensuring that restaurants that donate food to non-profit hunger relief agencies will be allowed to take the full deduction available to them under current law. Free of the risk of having to defend themselves against an IRS challenge, more businesses will be encouraged to donate food.

Second, the Act will extend the deduction to all business entities, providing the incentive to thousands of restaurants that are not organized as "c" corporations.

FOOD DONATION PROGRAMS MEET LOCAL COMMUNITY NEEDS

Despite strong economic growth, hunger remains a problem in every state. Hunger exists in rural areas as well as in urban areas. A major strength of food donation programs is that restaurants operate in every part of the country. The result is a largely untapped source of excess food in each of our communities.

A strong network of non-profit agencies that serve those who are hungry has developed across the country. America's Second Harvest network food banks, along with Foodchain and other national organizations, provide food to this network. However, increased demand at these agencies has resulted in the need for additional food. At the same time, food-manufacturing companies, a traditional source of excess food, have become more efficient in their operations. In addition, a secondary market for excess manufactured goods, i.e. Big Lots, Odd Lots, Internet surplus food sales etc., has developed. This has reduced the food available at a time when need is increasing. These agencies have a need for food now. The Good Samaritan Tax Act would increase the supply of available wholesome food by encouraging additional restaurants to donate their excess food.

Mr. Chairman, I appreciate the opportunity to testify here today. I encourage you and the committee to do everything in your power to enact the Good Samaritan Tax Act this year. Every day we wait, another child in America goes to bed hungry.

Testimonials

We know that food donation programs work. The unsolicited testimonials on the next four pages give an insight into the heartof Pizza Hut's Harvest program.

Lazarus ✝ House
Luke 16:19-31
214 Walnut St.
St. Charles IL 60174
630-587-2144

March 3, 1999

Pizza Hut Harvest
1453 Spruce Run Rd.
Newport VA 24128

Gentlepersons,

Enclosed please find the documentation for the month of February that you require for the Harvest program. This is our first month participating in the program and I want to thank you and tell you what a blessing it has been to us.

Lazarus House is a homeless shelter. One of the "extras" that people who become homeless usually miss is restaurant food. While many individuals and groups from service clubs and churches have been generous in donating food, the Pizza Hut pizza has been a special treat and has helped to "normalize" life to some degree for our guests. It has filled in the gaps when donated meals were not quite adequate for the numbers we needed to serve and it has been a special treat for a snack.

I also want to compliment the manager of the Geneva Pizza Hut, Beverly, and her fine staff. They have been extremely helpful and courteous and made this whole experience helpful and positive. Thank you for making this available to shelters and not for profit groups. I think it is a good business decision, and I know it is a real blessing.

In His Service,

Darlene Marcusson

Darlene Marcusson
Executive Director

SOCIETY OF ST. VINCENT de PAUL

Our Lady of The Lakes Conference
1310 Maximilian Street
Deltona, FL Florida 32725
Phone - (407) 574-2124

PASTOR
FR. EDWARD J. McCARTHY

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VICE PRESIDENT
SPANISH

GEORGE VOLL
VICE PRESIDENT

MARGARET KENNY
SECRETARY

DOLORES NOVOTNY
TREASURER

March 12, 1999

Mr. Bill Reighard
Pizza Hut Harvest Program
165 Windbrush Lane
Newport, Virginia 24128

Dear Mr. Reighard:

The St. Vincent de Paul Society of Our Lady of the Lakes would like to express our sincere gratitude and appreciation for your continued effort and support. Your Pizza Hut Harvest Program has made a substantial difference in our ability to serve the needy of our community.

The joy and happiness you have enabled us to give to others is priceless. We see the smiles on the faces of the youngsters, and the families with teens are overjoyed to receive such a treat. The hungry person living out of a car who receives some staple foods, plus a PIZZA, is sure things are going to get better. We have even the elderly who are living on a very limited income and who regard this as a rare event. We took care of a lady who had only one pair of torn shoes and was living on applesauce for almost a week. When we gave her a good supply of food, two pairs of shoes and topped it off with a PIZZA, she cried, hugged our volunteer, and said she thinks she died and went to heaven.

Yes indeed, your benevolent program does touch many lives and puts a smile beyond belief on many hearts and faces.

Thank you once again on behalf of all the people we are privileged to help. Please continue your splendid community support.

Sincerely,

Bill Comprosky,
President

LAKEVIEW SHELTER

March 10,1999

Mr. Bill Reighard
Pizza Hut Harvest Program
165 Windrush Lane
Newport, Virginia 24128

Mr. Reighard,

Just a note to let you know how much we, the staff and clients of Lakeview Shelter, appreciate your "harvest program". Tuesdays, are always a popular day as we have Pizza Hut Pizza for lunch. Since our weekly pickup is on Monday afternoon. In fact once every three or four weeks we pickup enough for two lunches. Needless to say there are never any leftovers.

Your staff at the Pizza Hut located at 5240 Pulaski Rd. in Chicago are truly outstanding and most helpful in any way possible. I always look forward to going there for our pickups, it is a most pleasant experience.

As you may already know Lakeview Shelter is a full service Men's Shelter, located at the shadows of Wrigley Field. We house 27 men on any given night and provide case management, referrals and a day program. We also have a supportive housing program which is more in the independent living mode (in SRO's or efficiency apartments). This program presently houses 18 men and we are slated to increase that to 25 in the near future.

Once again, on behalf of everyone at Lakeview Shelter Thank You, for your generous and practical contributions.

Sincerely,

Paul Mungrides
Resource Coordinator

LAKEVIEW SHELTER, INC.
835 West Addison Chicago, IL 60613 773-327-1389 Lakeview@mail.anet-chi.com

8

LINCOLN COUNTY COUNCIL ON AGING

FELLOWSHIP RECREATION NUTRITION INFORMATION

(314) 528-7000
541 SECOND STREET
TROY, MO 63379

March 10, 1999

Mr. Bill Reighard
Pizza Hut Harvest Program
165 Windrush Lane
Newport, VA 24128-9900

Dear Mr. Reighard:

Enclosed please find our signed and completed Agency Information Form for 1998 Pizza Donations.

I want to tell you how grateful we are to you for the pizza donations. We pick the pizza up each afternoon. We have our Senior Center here in Troy, Missouri and also Satellite Centers in Winfield and Elsberry. The pizza is shared with all three Centers.

The Seniors sure do enjoy the pizza treat. Thanks so very much.

Sincerely,

Merline Barley

Merline Barley
Executive Director

mb/Encl.

P. S. The guys and gals at Pizza Hut do a great job and put a lot of effort into making the pizza ready for pick-up.

Chairman HOUGHTON. Thank you very much, Mr. Reighard.

I just have one question and then I will turn it over to Mr. Coyne.

Ms. Brumagin, you have done an extraordinary job, done it all on your own with no government money at all. You have done it privately. Why should the Federal Government get in here at all with tax incentives?

Ms. BRUMAGIN. My feeling is that most communities really do not have the ability to assess what it is they need and make the kind of changes they need. I think we were just very lucky as a community. I think we were very fortunate that we had people who were willing to come to our community and invest their life savings not really knowing what was going to happen. I think tax incentives can make an enormous difference for a distressed community.

I don't know if you know what it is like to be at a local level where government officials do not have a lot of time to really try to assess what they can do for their community, may not really have the ideas and certainly do not have the money to invest in their own communities to help turn them around. I think tax incentives are the way of spurring that on for people.

Chairman HOUGHTON. Thank you.

Mr. Coyne?

Mr. COYNE. Thank you.

Mr. Phillips, you obviously support the Administration's New Market Initiative. I wonder if you could give us some examples of what investments in the short term the private sector would be expected to make in some of our distressed communities?

Mr. PHILLIPS. I tried to mention a couple during my initial remarks but for example, a lot of new investment opportunities are evolving in the telecommunications sector, even in rural communities. We are trying to support more homegrown entrepreneurs in that area.

I mentioned EnvisionNet which is based in Augusta and their startup and growth. They are employing more and more people every day. It is a call center support venture for Microsoft, on line banking and other things of that nature. They require capital to start and grow that business.

The way that would work is that if we were certified as a CDE, certified development entity, we would sell the credit say to an investor, a bank, individual investor, institutional investor, create a pool of capital and use that money to help finance that particular project.

Other projects get into areas of natural resources and value added types of industries which I mentioned. For example, in partnership with a bank, we helped finance the startup and expansion of Coast of Maine Organic Products with production operation downeast in one of Maine's poorest counties. The company manufactures a compost product for the household garden. They employ 15 in that particular venture. This is a much smaller project, so in rural communities you get that kind of variation.

We see the credit as providing our capacity to inject capital at the appropriate times and appropriate levels to help start or grow some of these businesses and these jobs.

Mr. COYNE. Of all the segments of the President's New Market Initiative, what do you think is the most important feature of his proposal?

Mr. PHILLIPS. There are several components to it. Each addresses a variation of capital needs, so all are important. For example, the CDFI Fund is a component of that because they are looking for permanent authorization and so forth. There is also community-based venture capital, the APICs and the New Markets Tax Credit and probably some other things. A very good question, all of them, of course, but let me try to answer more specifically.

The opportunities for access to equity capital is more or less at the top of our list in the sense that equity capital gives us the most flexibility, so provisions for community-based venture capital are important, a very critical one; so too is the CDFI Fund because you can use those funds for equity capital; but also for softer loans where the return will not be as high, such as facility or micro loans; and we believe the New Markets Tax Credit will allow us some opportunity to structure funding in a way that will allow us to access a much higher volume of private capital.

So in a way all of those pieces are moving toward the same objective of creating access to flexible private capital market in many ways to invest in some of these projects I speak about.

Mr. COYNE. Thank you.

Chairman HOUGHTON. Kenny?

Mr. HULSHOF. Mr. Reighard, thank you for being here and I especially want to applaud your efforts as President of the Food Donation Connection in helping to manage the donations of 4,500 restaurants to some 1,500 plus hunger agencies. This is a hot button issue for me.

My wife, in addition to her full-time career in marketing, just recently completed her term as president on the board of directors of the Central Missouri Fund Bank. So I have been sort of watching from the side as a supportive husband to see, for instance, in the last year the Central Missouri Food Bank that has about 20 Missouri counties, distribute 10 million pounds of food.

Since welfare reform has been instituted, they have distributed about 113 percent more food now than at the time that welfare was in play. They are quick to point out that they are still only reaching about 47 percent of the poverty level in Missouri. So I think anything we can do is important.

This bill, Mr. Chairman that you authored, that I co-sponsored, I think is a good bill.

I mention this because we are here in this forum. I recognize that most and probably your own experience is that as food is collected, there is a cost or distribution fee. The Central Missouri Food Bank in Columbia, Missouri is the only Second Harvest Food Bank in the Nation that does not charge for its food as it give it to other pantries and kitchens. As a result, I think that has been an incentive for a lot of other businesses to partner up with the Central Missouri Food Bank because they know this is very much a charitable endeavor.

I am not suggesting that you do that in your own experience but the good thing is that hunger is a curable illness as I like to say. So I applaud your efforts.

Let me ask you specifically about this bill, H.R. 1325. Do you think there are enough safeguards in this legislation to prevent it from becoming the stale bread bill?

Mr. REIGHARD. That is a good question. As you pointed out we work with 4,500 restaurants and we have been coordinating donations for eight years. We found there are really three solid reasons why this would not become a stale bread bill.

First, the original or the current law requires strict donating and receipting requirements on any food that is donated under this bill. It can only be donated to those organizations that serve the infant, ill or needy. Those organizations have to sign a receipt each time saying they will use that food only for this purpose, they will not resell it or give it to another organization.

Second, like the food bank you mentioned, there is a non-profit network across the country that is developed to serve food to the hungry but they are strapped for resources and money. You are not going to find an agency that is going to go out and pick up stale bread or food they can't use. We run into that, for example, there is an overproduction of bagels and bread in this country and it is very hard for those chains to donate their surplus food because there is just not sufficient agency use for it. In fact, on a limited basis, we have run into that with Pizza Hut in some areas where we cannot find acceptable organizations.

Third, current law requires that the food meet all FDA and applicable Health Department requirements. So our experience says this bill is successful in getting food the agencies need, we have not seen food they don't need move through it.

Mr. HULSHOF. Again, I applaud your ingenuity and your ministry if I can use that term trying to create these different partnerships, whether it is as the Central Missouri Food Bank has attempted to do with local dairy owners and that is obviously very difficult, getting milk and distributing milk because it is such a perishable item.

In the recent effort, we have a toastmaster which manufactures can openers and as they test these can openers on cans of food, they now have instituted this program to repackage the cans and then allow those to be distributed.

I am very supportive of the bill and I appreciate you helping us to bring this to the forefront with your testimony today.

Mr. REIGHARD. Thank you for your support.

Chairman HOUGHTON. Thanks very much.

Mr. Weller?

Mr. WELLER. I would like to direct my questions to Ms. Brumagin. First, let me commend you and your community on your locally-led, locally-driven initiative in revitalizing your community of Findley Lake and Chautauqua County.

I spoke with the representative from the Treasury Department earlier in the hearing regarding the issue of brownfields. Do you have brownfields in Chautauqua County?

Ms. BRUMAGIN. I am sure we do. I am not really that familiar with it, however.

Mr. WELLER. In any case, I represent the south side of Chicago, the south suburbs and rural areas going about 100 miles from the City of Chicago.

In many cases, here is that gas station that is one that one corner in every town that no one seems to buy, fix up or use and everyone wonders why. Usually it is because there is some environmental cleanup that is necessary. This is an example of a small brownfield. We can always think of the industrial parks that have them.

Currently we have a provision that was included in the Balanced Budget Act of 1997 that provides for a tax incentive for private investors who purchase a brownfield, clean it up and then they can expense or deduct in that year the cost of doing so as a way of recovering the cost of cleanup. That is incentive for them to purchase an existing industrial park or an existing commercial site in a community.

That provision is currently limited just to low income census tracts or empowerment zones. From the standpoint of an elected official representing the Town of Mina in Chautauqua County, do you feel that is the best approach or do you feel that communities that happen to be middle class, rural or suburban should also have the opportunity to use that type of incentive for environmental cleanup of a brownfield?

Ms. BRUMAGIN. First of all, we did have a situation in our community where we had just that. We had a gas station on the corner and also one of the buildings that is in the photo used to be a gas station. I know there were people who were really hesitant to purchase those properties because they were very concerned about the liability associated with purchasing them.

The one building in particular, the one from 1996, had gas tanks. I know a lot of people looked at that and they would not purchase that property. The people who did so really took a big chance in doing that. It turned out very positively for them, however, because we just had the State come through and redo that road and they removed those fuel tanks from the ground.

Mr. WELLER. In that case, the taxpayers picked up the tab for the cleanup?

Ms. BRUMAGIN. We appreciated that very much. I know that building could have sat there for many more years because people who had considered purchasing it would not do so because of the liability associated with that.

Mr. WELLER. I find that abandoned gas stations usually are the best example because almost all of us can think of one in a town we live in or a town nearby our home. People often wonder why. It is on the most strategic corner in town, why doesn't someone buy that and use it for some commercial or positive purpose. In most cases, it is a brownfield and there is some cleanup necessary.

I just want to share with you that we do have a bipartisan proposal. Ten members of the Ways and Means Committee have a proposal which we introduced last week, H.R. 4003, in which I am joined by Representative Coyne, Mr. Johnson and seven other members of this committee in sponsoring which eliminates that so-called targeting, eliminates that incentive to just low income areas but also allowing rural and suburban and middle class communities like yours to have the opportunity to cleanup that old industrial site or that old gas station.

One thing I found was of great concern. I spoke and met with a large group of conservation oriented folks a couple of weeks ago in the south suburbans at a conservation congress hosted at Governor State University and the great concern at that meeting was the south suburbs keep growing south and consuming vast amounts of farmland and open space. They expressed great concern about the need to revitalize old brownfields to reduce the need for new greenfields, to take the pressure off farmland and open space.

I believe that addressing the need to give middle class communities, rural and suburban communities the opportunity to cleanup old brownfields is good for the environment as well as good for creating jobs.

I want to thank you for testifying today.

Chairman HOUGHTON. Thanks very much, Mr. Weller.

Mr. Lewis?

Mr. LEWIS. Chairman Wallace, thank you for being here today. The Assistant Secretary testified in his prepared statement that many residents of Native American communities continue to struggle economically in spite of all this prosperity and all this growth. Could you tell the committee what has been the impact of the Native American wage credit? Is it helping? Is it making a difference in your communities?

Mr. WALLACE. It has made a difference in certain parts of the community but some of the development preconditions that make this advantage more meaningful haven't necessarily existed, the preconditions where you have the incentives of capital to be invested for development coming into the community.

One of the things that handicaps tribes is really creating the fundamental preconditions that attract capital. In instances where that does happen with certain advantages like accelerated depreciation credit that is in the code now, actually not only had a direct and meaningful contribution to development in Indian country but it also had a very nice and intended benefit. Not only does it inspire capitalization of business facilities and operations on reservations, it also provided incentives for utility companies and other entities that provide public infrastructure to bring to the reservation and also gives them a benefit in terms of accelerated depreciation of their capital investment in the community as well.

The wage credit itself does have a benefit. It is just that right now we are struggling hard to create the broader preconditions that make it more meaningful.

Mr. LEWIS. Could you tell members of the committee what is the average annual income of an American Indian family?

Mr. WALLACE. As I understand, according to the U.S. Census, and this is something we are not very proud of, I just saw a citation of approximately almost one third of the national tribal population is below the Federal poverty line, $18,000 or less.

Mr. LEWIS. In terms of dollars, what did you say?

Mr. WALLACE. $18,000 per family. Average income, one-third of Native America is below $18,000 per capita.

I wanted to again highlight the meaningfulness of this discussion and the historic requirement to overcome what appears to be the natural omission of the view of tribal governments as part of the community of governments and their central role in creating a development orbit for tribes.

Some of the perspectives that we talked about today and some of the initiatives are privately oriented but the architecture of tribal development environment is dominated by the tribal governments themselves and then the NGOs that have been with us to try to help jump-start tribal economies. That is a distinction I think cannot be overlooked and needs to be repeated over and over.

We are certainly very interested in seeing the existing, accelerated depreciation credit and the employment tax credit renewed because we are just beginning to realize its full benefit.

On a personal note, where I come from, Congressman Lewis you are considered a very distinguished American and personally, you have set a standard of public service and faith that I can only hope to achieve in my lifetime. It is a very distinct privilege to be here before not only the committee but also to work with you on these very important issues.

Mr. LEWIS. Thank you very much, Mr. Chairman.

Chairman HOUGHTON. Thank you, Mr. Wallace.

Mr. Watkins?

Mr. WATKINS. Ms. Brumagin, we think a lot of your communities and we think a lot of your congressman. He is quite a guy, we all like him and he does a great job here. He is very effective and now and then he lets me get a word in but not very much.

Mr. LEWIS. Will the gentleman from Oklahoma yield for a moment? I just want to say you have a very good congressman. He is a wonderful Chairman, he is a good leader and he is my friend. I am a Democrat and he is a Republican.

Ms. BRUMAGIN. Hear, hear.

Mr. WATKINS. I have been all three, a Democrat, an Independent and a Republican. Whatever you want me to be, I will be.

I read your entire testimony. You have a tremendous location.

Ms. BRUMAGIN. Yes, we do.

Mr. WATKINS. A new interstate coming through there and easy access to others. I imagine there is a lot of God sent beauty there too. I can only imagine by the name of the lake and so forth. What is your per capita income there?

Ms. BRUMAGIN. I actually do not know our per capita income. Our community is very diverse, even though it is very small, 1,100 people. For those families that are permanent residents, their incomes are very low because there are really not that many places to be employed.

Mr. WATKINS. You set up an endowment of $175,000 and I was impressed with that.

Ms. BRUMAGIN. The other part of our community, however, are those people who are attracted to this beautiful little lake and we do have people who have second homes there. Those are the people who really have been contributing to the endowment fund. So we have a good amount of wealth from the seasonal residents.

Mr. WATKINS. Keep up the good work because they need you and they need some incentives from time to time for some other economic opportunities.

This is the reason I questioned the Administration proposing the tax credit for community development entities. When you go down and find out what the community development entities are, they talk about community development financial institute. We don't have any of those in rural America; the community development corporation, we don't have any of those in rural America; small business investment corporations, we don't have any in economically depressed rural areas; new market venture capital firms, we don't have any, so we don't have the vehicles. We don't have the economic infrastructure. That is what a lot of people don't understand.

Our economic infrastructure has been destroyed. We left the cotton fields and the fields. I grew up in a town of less than 200. We used to have two banks, two cotton gins, out migration, two blocks of businesses. We don't have two stores left in my boyhood hometown. That is why I am so committed and dedicated to this. That is why I would like to have equity in a lot of these programs.

Mr. Wallace, I have thought about some Native American activities. I noticed you talked about these being for economically depressed Indian reservations. Mr. Wallace, I have 22 percent of the Native Americans in America. We don't have reservations. I have three grandchildren who are Native American. They are ignored. I was the only non-Indian on the baseball team growing up. I was a minority and I didn't know it in a rural economically depressed area.

I fought this battle because I want my Native Americans to be included, not left out. Our President of the United States, Andrew Jackson, forced them to the Trail of Tears, Congressman List from North Carolina, to march the Trail of Tears and also from Georgia and other areas. They came to an area called Indian Territory, part of Oklahoma. That was good enough for them to be sent to; why isn't it good enough for them to have some of the incentives that some of the other areas have had? Don't ignore your own people. There are those out there that are not on Indian reservations.

Again, I had two of my tribes—the Choctaws and the Chickasaws—to come together with an empowerment zone application with the local people. I want our local people to work together but it was ignored. I see that we weren't treated with equity, we weren't given the same number of a third of the urban areas.

I hope the committee is listening. We have to make sure there is equity for those who are least fortunate if I read the script correctly.

Thank you.

Chairman HOUGHTON. Thank you, Mr. Watkins.

Mr. Portman?

Mr. PORTMAN. Thank you, Mr. Chairman.

I appreciate my colleague from Oklahoma's statement. It focuses on the need to make sure that what resources we have here are used most effectively, whether it is focused on rural communities, urban communities, those identified by political jurisdiction, and Chairman Wallace talked about the reservations, the need for focus there.

I guess one of the points Mr. Watkins is making is sometimes it is hard to identify a group by political jurisdiction that might need the same kind of help. Under the 1993 OBRA legislation, we have things like the Indian employment credits, accelerated depreciation, in 1997 in my own area, not my district, we were one of the Round II empowerment zones. We are proud of that and are trying to work through that. We have had some problems, frankly, in working through that.

We now have a lot of talk about new initiatives. Mr. Phillips talked about the new markets initiatives and how that can be helpful. We have ideas out there to expand the existing empowerment zones. In my area, the Round II empowerment zones want whatever benefits the Round I empowerment zones currently have. We need to work through that and make sure there is fairness there between zones.

There are proposals to expand the current SSBIC incentives, expand those and make the small business initiatives work better. Then there is the Community Renewal Act which is another series of tax incentives. So there is a lot going on and a lot out there.

One of the questions I have is what is working and what is not working? In our case in greater Cincinnati, we have had trouble with our enterprise zone, putting together the right kind of board. We haven't been able to come together and reach a consensus on how to spend the money we have and we're asking for new money. It is difficult without a track record of success.

I guess the first question I would have building on Mr. Lewis' question to you, Chairman Wallace because I think you have a good feel as to what has worked and what hasn't, on the Indian employment credit, the 20 percent wage credit which goes to wage credit or health care, a 20 percent credit for that which is paid in excess to what was paid in 1993 or before that time, is that accurate?

Mr. WALLACE. Yes, sir.

Mr. PORTMAN. That is something you indicated has been helpful but not as helpful as it could be and yet you didn't really explain how it could be more helpful. Could you take a moment just to expand on that and say how it could be modified to make it work better? You talk about bringing in capital which may be another issue but even with the existing credit, what is working, what isn't and how can it be changed to use the same resources more effectively?

Mr. WALLACE. Thank you for following up on that because the light came on after I gave my first answer. The employment tax credit is very beneficial but as I talked about the geography of the development environment related to tribes, it is heavily influenced by governmental activities and the participation of nonprofit organizations, development entities and the tribal economy.

The credit is very worthy and it certainly needs extension but if there is a possibility to modify the credit, to take into consideration the players in the development orbit of the tribe, the government and the nonprofits, if there could be some flexibility incorporated where it would be an elective process where you could either choose to take the credit to discount your corporate tax liability or more so we would like to advocate if you could use that to offset your payroll taxes and give those other players some incentive and some flexibility in dealing with the credit, and take full advantage of it.

Mr. PORTMAN. So it is expanding those entities that would be eligible to receive a credit?

Mr. WALLACE. Precisely.

Mr. PORTMAN. Going to the nonprofit area and not just private companies but both the tribal government and non-profits that are working in the area to expand development?

Mr. WALLACE. Exactly. That would be very helpful because there is no incentive where they can take advantage of the discounting of the corporate liability tax.

Mr. PORTMAN. How about getting capital into the area? You mentioned that as a major problem, that it is great to have the accelerated depreciation, great to have the tax advantages of the wage credit, but it is tough to get capital invested. Are you looking at ways to do that in this new legislation? Do you like the new markets initiatives in that respect? Is that the kind of effort you think is necessary to get capital in these areas?

Mr. WALLACE. We find a significant amount of merit in those proposals and are very supportive of them and some of the other ideas that have come before the committee.

Also talking about prospective incentives, some of the other things, tribes are actually involved in issuing debt to marketplace and providing types of opportunities that are available to other governments but in Congress' consideration of some of the limitations and qualifications of this policy and proposal, particularly as articulated in the Internal Revenue Code, we would hope we would have the opportunity to talk about some prospective barriers that have come up.

The essential government function restriction is very narrow for us to take full advantage. State and local governments aren't subject to similar restrictions on the bonds they issue, so it is restrictive to us.

The restriction on private activity bond limits to tribes issuing bonds were required that only is applicable to manufacturing facilities, so we are wedded unfortunately to one specific sector of the economy and don't have the flexibility to get engaged in other diverse activities.

Third, the fact that tribes as State and local governments enjoy a relationship with the Federal Government and the intergovernmental revenue streams that are available to us disqualifies tribes because of that, because of the Federal guarantee prohibition. So that is a handicap.

Fourth, tribe bond issues currently do not enjoy an exemption from the Federal securities registration, so we really don't have the ability to take advantage of the efficiency of the bonding network and the community that lives in this part of the wilderness so to speak in economic terms. So the tribes have very narrow opportunities. Then the cost of capital goes up because of the specialized nature of the inflexibility of our access to the efficiency of the marketplace.

Mr. PORTMAN. Thank you.

Chairman HOUGHTON. Rebecca, you did us proud.

Gentlemen, you were wonderful.

Thanks so much for your testimony.

Chairman HOUGHTON. Now I think we will have the next panel. I would like to introduce Tom Lewis, President, Fishing School; William P.D. Cade, President, Computers for Schools Association; and then I am going to let Commissioner Carlos Romero Barcelo introduce his witness.

Mr. Barcelo. The Chairman is sole representative in Congress of the almost 4 million disenfranchised U.S. citizens of Puerto Rico.

I appreciate the opportunity to introduce our next panelist, the Puerto Rico Secretary of Economic Development and Commerce and Executive Director of the Puerto Rican Industrial Development Company, Mr. Xavier Romeu.

Mr. Romeu will discuss how Puerto Rico can benefit from the new community development proposals and how to accomplish community development goals in the island. As resident Commissioner for Puerto Rico, it has been my goal to gain full participation in the Federal programs that promote the health and welfare of all Americans, including Medicare and Medicaid while ensuring that we can equally prosper in this period of unprecedented economic growth.

Puerto Rico was excluded from the 1993 Omnibus Reconciliation Act that authorized the U.S. Department of Housing and Urban Development and the U.S. Department of Agriculture to designate empowerment zones. The principal reason was the existence at that time of the Section 936 tax credit on the island. The Section 936 tax credit provided almost total exemption from Federal income taxes from U.S. company operations in Puerto Rico and the U.S. territories. Nonetheless in 1996, Congress enacted a ten year phase out of the credit, ending it altogether after December 31, 2005.

I still believe, as I did at that time, that the tax credit provided in Section 936 was to a significant extent a corporate welfare. As many of you know, I was one of the first voices calling for its repeal because it gave too much and provided very little for what it gave. We felt that a tax incentive directed towards jobs would be much more productive for Puerto Rico and would be less expensive for the Nation.

Now, Puerto Rico, like many other communities across the Nation, is at an economic crossroads and I strongly urge Congress to consider new initiatives that will expand the economic incentives to Puerto Rico ensuring that the 3.8 million U.S. citizens are not left behind in this time of economic growth, particularly when we have large unemployment in Puerto Rico.

There is a stimulus to migration to the mainland looking for jobs and many times going into communities where they cannot find a job and end upon welfare, which is a burden on those communities. This is an incentive for migration undesirable to us and undesirable to the Nation.

It is my pleasure to introduce Mr. Xavier Romeu from the Department of Economic Development and Commerce in Puerto Rico.

Chairman HOUGHTON. Thank you very much, Commissioner.

Mr. Romeu?

STATEMENT OF HON. XAVIER ROMEU, SECRETARY, DEPARTMENT OF ECONOMIC DEVELOPMENT AND COMMERCE, HATO REY, PUERTO RICO

Mr. ROMEU. Good afternoon, Mr. Chairman. Good afternoon, Don Carlos.

I am the Secretary of the Department of Economic Development and Commerce of Puerto Rico and also the Executive Director of the Industrial Development Company of Puerto Rico, better known as PRIDCO. PRIDCO is specifically charged with attracting new investment and promoting the creation of U.S. jobs on U.S. soil, namely the beautiful island of Puerto Rico.

I commend you, Mr. Chairman, along with the Speaker and other members of the House of Representatives, who have labored on ways to create and extend tax incentives to assist communities that have not fully participated in our Nation's economic growth and prosperity. I particularly commend and highlight the lifelong labor of our Congressman, Resident Commissioner Carlos Romero Barcelo for his leadership in including Puerto Rico in all economic development initiatives that help Puerto Rico develop as a good investment jurisdiction. I also commend the Administration for including Section 30(a), the Puerto Rico Economic Activity Tax Credit, in its proposal to this committee.

I would like to take some time to ask what better time than this for Congress to ensure that all communities, not just some, in America prosper and grow to their full capacity.

In announcing these hearings, Mr. Chairman, you emphasized that we cannot afford to leave anyone behind. Congressman Watkins just a few moments ago correctly called for equity and inclusiveness of all world areas in the Nation's well being and I could not agree more with the Congressman from Oklahoma.

Congressman Portman raises very appropriately the question of what is working in each one of our communities for economic development that like Puerto Rico need additional benefits in order to develop to their full economic capacity.

I am here today to advise the members of the committee on what works in Puerto Rico and how to best extend the principle of equity and inclusiveness to the four million U.S. citizens of Puerto Rico to make sure that we, as proud U.S. citizens and Americans, are not left behind and are included in the economic prosperity of our Nation.

I know the members of this committee, as well as many of your colleagues in the House, are committed to the idea of inclusiveness and equity. While many of the proposals under consideration by the subcommittee will succeed in economic development on the U.S. mainland, it will do little for Puerto Rico, Mr. Chairman.

However, I am very pleased to report that Representative Phil Crane, along with Representatives Rangel, Congressman Romero Barcelo, Congressman Weller and Congressman Dunn have introduced legislation, H.R. 2138, that will effectively apply the principal objectives of these initiatives, investment and job growth in the private sector to the benefit of the American citizens of Puerto Rico.

The Crane-Rangel initiative is, in your words, Mr. Chairman, "a proposal to expand incentives to help communities which need it the most." Under the leadership of Governor Pedro Rosselló and Don Carlos Barcelo, Puerto Rico's economy has been transformed over the past seven years. Our efforts have brought Puerto Rico extraordinary results when compared to the recent past. When I say the recent past, I mean only the last seven or eight years.

We have sold off most of our state-run companies, we have undertaken major new infrastructure projects, including modern mass train systems, a super aqueduct that is already relieving our chronic water shortage in Puerto Rico, new roads, and the construction of what will become the largest world trade and convention center in all of Latin America. We have also pursued an aggressive local incentives program that reduces our local corporate tax burden to as little as 2 percent for companies investing in some parts of the island of Puerto Rico.

While this new Puerto Rico represents historic progress, we lag the Nation in the key indicators that this committee is concerned with today. Our current rate of unemployment is approximately 11 percent, two to three times the average national rate. To bring it further in line with the national average, we must work in a partnership with the Federal Government. Quite frankly, Mr. Chairman, we cannot do this alone.

In the context of today's hearing, the question for us, the 4 million U.S. citizens of Puerto Rico, is how we can work together to keep and expand U.S. jobs on U.S. soil, namely the beautiful island of Puerto Rico.

In 1996 in the context of raising revenue to offset the impact of minimum wage increase which applied both in the mainland and in Puerto Rico, Congress eliminated the only Federal tax program designed to encourage employment and investment in Puerto Rico, Section 30(a) of the Internal Revenue Code.

Under Section 30(a), U.S. companies are rewarded for creating jobs for the American citizens of Puerto Rico by receiving a Federal tax credit against their income from Puerto Rico operations that is calculated by taking their wages into account. Simply stated, the more jobs U.S. companies doing business in Puerto Rico create, the greater the tax credit.

Under the 1996 changes, the Congress limited the credit to U.S. operations in Puerto Rico existing as of October 13, 1995 and no credit, I emphasize no credit, was left in place for new companies or for existing companies planning to expand into new lines of business. In other words, while Congress was enacting Federal tax incentives to encourage companies to grow on the mainland, over four years to the tune of $55 billion, at least at the Federal level, it created a disincentive for companies to grow in Puerto Rico.

We have pursued an aggressive program in Puerto Rico to attract new business but we are limited by the lack of new Federal incentives and the caps in existing incentives. Congress knows only too well that there are limits to what a local jurisdiction can accomplish and that is why it has enacted new tax incentives almost every year for the mainland.

In the context of the subcommittee's program for all communities, Section 30(a) is the best way, short of statehood, to retain and expand the private sector in Puerto Rico. The net effect of Congress' actions in 1996 are significant. Since 1996 and for the first time in history, we have generally maintained the presence of our existing mainland U.S. companies but it is increasingly a challenge to attract new investment in Puerto Rico.

Puerto Rico is competing against low wage, non-U.S. jurisdictions for future investment by American companies because virtually every Federal, commercial, environmental and labor law, including the minimum wage, applies in Puerto Rico, we will have an even greater challenge competing with those jurisdictions such as Mexico, the Dominican Republic and Central American countries.

I want to stress and make very clear that Section 30(a) does not take or attract businesses from the mainland. That was the old Section 936, which like Don Carlos, we were happy to see go away from the island and which was corporate subsidies.

Instead Section 30(a) makes Puerto Rico competitive with other non-U.S. jurisdictions. U.S. jobs that do not stay in Puerto Rico in the future will leave the U.S. altogether. The retention and growth of these jobs on U.S. soil is an important point not just for Puerto Rico's U.S. citizens, but for the mainland as well. Puerto Rico is the tenth largest purchaser of goods and services from the mainland, totalling approximately $14 billion a year. Moreover, well over 220,000 mainland jobs depend directly on Puerto Rico.

As a result, by including Puerto Rico in legislation to strengthen communities, Congress would not only give additional tools to continue to create jobs and build communities, but would also ensure the positive benefit of a strong Puerto Rico on the mainland.

The likely additional increase in the Federal minimum wage places an additional challenge on Puerto Rico's effort to create jobs. Paradoxically, Mr. Chairman, when Congress passed the 1996 Small Business Job Protection Act, none of the tax breaks applied to any U.S. businesses in Puerto Rico. I submit it would be unfair and counterproductive to exclude Puerto Rico once again. Puerto Rico is more affected by the minimum wage increase than any other jurisdiction in the U.S. In fact, because our overall low wage levels, approximately 50 percent of the work force in Puerto Rico comes within $1 of the minimum wage and would be directly by this increase.

Congress should include Puerto Rico in any offset to the negative effects that a minimum wage increase will have on business and the economy. The most effective way to do so is through Section 30(a).

The incentives being discussed today for our Nation as a whole will do a great deal to accomplish the goals of increasing private sector investment in communities on the mainland and if Puerto Rico's political status placed it on a par with the mainland, as a State of the Union, they would be effective in Puerto Rico as well.

Regrettably absent a change in status to Statehood which has proven time and again to be the best growth incentive in American history, we need a program that is designed specifically for Puerto Rico. Section 30(a) is such a program. No community development program will be fully successful if it does not include all American communities, including Puerto Rico.

For us and for Congress, the challenge is to continue to encourage U.S. employers to maintain and create new private sector jobs in Puerto Rico and prevent those jobs from fleeing to non-U.S. jurisdictions.

We in the Rosselló administration and you in Congress share the commitment to whenever possible, keep American jobs on American soil and the best way to accomplish this is to extend Section 30(a).

Mr. Chairman, members of the committee, Congressman Romero Barcelo, I thank you for the opportunity to share our views with the committee. I look forward to working with each one of you to enact legislation to encourage job creation and capital investment in Puerto Rico.

Thank you.

[The prepared statement follows:]

Statement of the Hon. Xavier Romeu, Secretary, Department of Economic Development and Commerce, Hato Rey, Puerto Rico

INTRODUCTION

Mr. Chairman and members of the Committee, I am the Secretary of the Department of Economic Development and Commerce of Puerto Rico and Executive Director of the Puerto Rico Industrial Development Company (PRIDCO). Economic Development and Commerce is an "umbrella" Department, encompassing several agencies focused on the development of a diversified economy and the improvement of the island's business climate. PRIDCO is specifically charged with attracting new investment and promoting the creation of U.S. jobs on U.S. soil.

I commend you Mr. Chairman, along with the Speaker and the other Members of the House of Representatives who have labored on ways to create and extend tax incentives to assist communities that have not fully participated in this Nation's economic growth and prosperity. I particularly commend our Resident Commissioner, Carlos Romero Barcelo, for his leadership on including Puerto Rico in all economic development initiatives that would help Puerto Rico. What better time than this to step back and ask how Congress can insure that all communities in America prosper and grow to their full capacity?

In announcing this hearing you emphasized that "We can't afford to leave anyone behind." I am here today to advise the Members of this Committee with respect to how best to extend the principle of inclusiveness to the four million United States citizens of Puerto Rico; to make sure that these Americans are not left behind. I know that the Members of this Committee, as well as many of your colleagues in the House, are committed to that ideal.

While many of the proposals under consideration by this Subcommittee will succeed in economic development on the mainland, they will do little for Puerto Rico. I am, however, very pleased to report that Representative Phil Crane, along with Representatives Rangel, Romero-Barcelo, Weller and Dunn have introduced legislation (H.R. 2138) that effectively will apply the principal objectives of those initiatives, investment and job growth in the private sector, to the benefit of the American citizens of Puerto Rico. The Crane/Rangel initiative is, in your words, Mr. Chairman, "a proposal to expand incentives to help the communities which need it most."

BACKGROUND

Under the leadership of Governor Pedro Rosselló Puerto Rico's economy has been transformed over the past seven years. Once dominated by state-run enterprises, most of which operated at a loss and inefficiently, we are now deeply committed to growing a diversified private sector and to job creation.

Our efforts have brought Puerto Rico extraordinary results when compared to our recent past. Traditionally, as was the case when the Rossello Administration came to power, even with a high public payroll, we suffered from extreme unemployment, ranging at times as high as twenty-five percent. Our infrastructure was badly in need of repair and expansion, and our economy was in need of diversification.

Our efforts have paid off when compared to our past. We have sold off most of our state run companies. We have undertaken major new infrastructure projects, including a desperately needed mass transit system, a new superaqueduct which will vastly relieve our chronic water shortage problems, new roads, and the construction of what will become the largest World Trade and Convention Center in all of Latin America. We have also pursued an aggressive local incentives program that reduces our local tax burden to as little as 2% for companies investing in some parts of our island.

While the New Puerto Rico represents historic progress for us, we lag the Nation in the key indicators that this Committee is concerned with today. Our current rate of unemployment, approximately 11%, while an all time low for us, is significantly above the national average. To bring it further in line with the national average, we must work in a partnership with the federal government. We cannot do it alone.

In the context of today's hearing, the question is how can we work together to keep and expand U.S. jobs on U.S. soil?

SECTION 30A—A JOB CREATION CREDIT FOR PUERTO RICO

In 1996, in the context of raising revenue to offset the impact of a minimum wage increase which applied both on the mainland and in Puerto Rico, Congress eliminated the only federal tax program designed to encourage employment and investment in Puerto Rico, Section 30A of the Internal Revenue Code.

Under Section 30A, U.S. companies are rewarded for creating jobs for the American citizens of Puerto Rico by receiving a federal tax credit against their income from Puerto Rico operations that is calculated by taking their wages into account. The more jobs they create, the greater the tax credit.

Under the 1996 changes, Congress limited the credit to U.S. operations in Puerto Rico in 1995, and no credit was left in place for new companies, or existing companies planning to expand into new lines of business. In other words, while Congress was enacting federal tax incentives to encourage companies to grow on the mainland, it created, at least at the federal level, a disincentive for U.S. companies to grow in Puerto Rico.

While we have pursued an aggressive program in Puerto Rico to attract new business, we are limited by the lack of new federal incentives and the caps in existing incentives. Congress knows only too well that there are limits to what a local jurisdiction can accomplish, and that is why it has enacted new tax incentives almost every year for the mainland. In the context of this Subcommittee's program to lift all communities, 30A is the best way to expand the private sector in Puerto Rico.

The effect of Congress' actions in 1996 are significant. Since 1996, and for the first time in modern history, while we have generally maintained the presence of our existing U.S. corporate citizens, it is increasingly difficult to attract significant new U.S. corporations, and existing companies have disincentives to create new jobs or replace old equipment.

Puerto Rico is competing against low wage non-U.S. jurisdictions for future new investments by American employers. Because virtually every federal commercial, environmental, and labor law, including the minimum wage, applies in Puerto Rico, we will have even greater difficulty competing with such jurisdictions once Section 30A expires. With Section 30A in place, there is no better jurisdiction outside of the mainland for U.S. companies to grow.

I want to make very clear that Section 30A does not attract businesses away from the mainland. Instead, it makes Puerto Rico competitive with other non-U.S. jurisdictions. U.S. jobs that do not go to Puerto Rico will leave the U.S. altogether.

The retention and growth of these jobs on U.S. soil is an important point not just for Puerto Rico and its U.S. citizens, but for the mainland as well. Puerto Rico is the tenth largest purchaser of goods and services from the mainland, totaling approximately $14 billion a year. Moreover, well over 220,000 mainland jobs depend directly on the Puerto Rican economy.

As a result, by including Puerto Rico in legislation to strengthen communities, Congress would not only give us greater tools to continue to create jobs and build communities, but would also insure that the positive benefits of a strong Puerto Rico on the mainland are also preserved and strengthened.

MINIMUM WAGE IMPACT ON PUERTO RICO

The likely additional increase in the federal minimum wage compounds Puerto Rico's efforts to create jobs. Paradoxically, when Congress passed the 1996 Small Business Job Protection Act, which provided tax benefits for businesses affected by the 1996 minimum wage increase, none of the tax breaks applied to any U.S. business in Puerto Rico.

It would be extremely unfair and counterproductive to exclude Puerto Rico once again. Puerto Rico is more affected by the minimum wage increase than any other American jurisdiction. In fact, because of lower overall wage levels, approximately 57 percent of the workforce in Puerto Rico comes within $1 of the minimum wage and would be directly affected by this increase. Congress should include Puerto Rico in any offset to the negative effects that a minimum wage increase will have on its businesses and its economy. The most effective way to do that is by expanding Section 30A.

THE JOB CREATION TAX INCENTIVE FOR PUERTO RICO

The incentives being discussed today by the nation as a whole will do a great deal to accomplish the goals of increasing private sector investment in communities on the mainland, and if Puerto Rico's political status placed it on a par with the mainland, they would be effective for us as well. Regrettably, absent a change in status to statehood, which has proven time and time again in American history to be the best growth incentive, we need a program that is designed specifically for Puerto Rico. Section 30A is the best way to help us create jobs.

No community development program will be fully successful if it does not include all Americans communities, including Puerto Rico. For us, and for Congress, the challenge is to continue to encourage U.S. employers to maintain and create new private sector jobs in Puerto Rico. We in the Rossello Administration, and you in Congress, share a deep commitment to wherever possible, keep American jobs on American soil.

I look forward to working with you to enact legislation to encourage job creation and capital investment by U.S. companies in Puerto Rico.

Chairman HOUGHTON. Thank you very much.

Mr. Lewis?

STATEMENT OF TOM LEWIS, FOUNDER AND PRESIDENT, FISHING SCHOOL

Mr. LEWIS. Thank you, Mr. Chairman, members of the committee. It is an honor for me to be here with you today.

My name is Tom Lewis and I am a retired Metropolitan Police Officer here in Washington, D.C., a local minister and the founder and President of the Fishing School. It is an after-school motivation program that I run in northeast Washington.

I started out many years ago as a police officer working in schools with children. My job was to go into schools and talk with children about the jobs of police officers and things we did to help them and their families. As I talked with these children from time to time, I would see the one in the third grade bringing the one in the first grade to school just as filthy and dirty in the morning, slobbering over each other and it just kind of broke my heart.

I all too often witnessed the results of that kind of childhood with children coming to school dressed and looking like orphans. The result of that kind of thing led to children growing up involved in robberies, drug addiction and even murder. I once remember finding the body of a man who had been dead and the stench of that body for four days, I never smelled anything like it in my life.

As I began to think about that, I also thought about the smell, the stench of the other things that were going on within our communities, the smell of pain and suffering and degradation. So I wanted to find a way to do something about it. As victims, the children were being presented as victims and far too often as perpetrators as time went on.

Through my police work, it became clear that someone had to do something to rid this community of this kind of poison. I desperately wanted to help the children but I didn't know what to do. I didn't know where to begin, I just knew I had to do something.

In 1985, I purchased a building in a distressed part of Washington, D.C. on Wylie Street, a street that was said to have been the worse street in America. When I had that house there I was trying to help supplement my own income for my own three children. As I was praying at church I had a vision and I decided I was going to open that house as a family service center there in Washington, D.C. It is a rough area and people though I was crazy for going there but my mind and my vision drove me there and I decided to do my life's work there. Taxicabs don't go on that block, pizza delivery trucks don't go there, police officers don't want to go there. They won't go there unless they are with someone else.

I named it the Fishing School based on the adage that says, "If you give a man a fish, it will feed him for a day. Teach him how to fish and he will feed himself for a lifetime." What we are actually trying to do is fishing in the rivers of the mind there. We work with about 35 children a day, teaching them a variety of skills. We help them with homework, deal with computer skills, give them a warm meal every day, teach them basic life skills like practicing good manners, showing respect and practicing self discipline.

The children, despite their chaotic even dangerous environment, show signs of getting the message, catching on to kindness and decency and self respect, catching on to hope and confidence and the joy that comes from learning. Every day more and more kids on Wylie Street are learning how to fish in the rivers of the mind.

I wouldn't want to mislead you to believe this is anything less than a slow and arduous process. Some of the children still won't even dare to dream. Some of them come to me as children who have never known a real childhood and real laughter, to play hopes and gains. The Fishing School offers them hope, the Fishing School teaches them to dream big dreams and to work hard to achieve their dreams whatever it may be.

People who don't live in our neighborhood can't understand the hopelessness that invades the lives of our children. It is like a thief. They watch the evening news and shake their heads at those kids in the inner city who join gangs, sell drugs, bring babies into the world at an alarming rate. They shake their heads and breathe a sigh of relief that their kids are safe at home at least, safer in the suburbs and in their private schools. I don't blame them, I want the same thing for my children but I want to tell those people who only know the kids in my neighborhood from what they see in the media, these aren't really bad kids.

The kids that join the gangs, the girls that have babies they can't support, are undisciplined, they are reckless, their behavior isn't moral by anyone's standards but what most people can't comprehend is that these kids, many of them, have never been told they have a choice. For many of these children, they believe it is the only way they can get along or belong, the only way they can have an identity, the only way they know how to get along, how to get love and acceptance. They don't know there is another way.

If you say, but don't they understand this kind of behavior will ruin their future? The vast majority of them will look you in the eye and say, what future? It is up to us to give these kids a future. How do we do that? By giving them hope, by showing them the world outside their neighborhood.

At the Fishing School we often take field trips to the museums all over town, Goddard Space Center, we bring them up here to Capitol Hill to learn about Congress and to the many other historic landmarks that make our city so rich. We show them the world of books, bring in volunteers and consultants who inspire them in a variety of subjects. We teach them about virtue, self respect and respect for others. At the Fishing School, we teach them about God and the dignity he bestows on each one of them.

We often pray for their families and their friends and their futures. It is all about hope at the Fishing School. I encourage each child to find his own strength. For the boy who is good at carpentry, we show him how to build things; for the children who can write, we encourage them to read their work to audiences at Borders Book Store. To the young man who wanted to dance, I found him a tutor and they got him a scholarship at the Washington School of Ballet. He ended up dancing the Nutcracker Ballet with Chelsea Clinton before she left town.

So you see I don't just want children to survive; we want them to strive and go beyond that. I believe our program works not because we spend a lot of time lecturing kids on the dangers of drugs. These kids know how dangerous drugs can be. They have sick and in some cases, dead brothers, mothers and fathers to prove it. They don't need my lectures. They need my love.

Mr. Chairman, if you will allow me to continue half a minute. I believe there is a need for Fishing Schools in every inner city in this country. My cousin has been trying to open a school in rural North Carolina and after several years of trying this, we finally opened it last year.

I got a call from a lady in Dayton, Ohio who wants to open a Fishing School there. I got a call from a lady who is coming to Washington the first week in April to look at our school from Augusta, Georgia. She wants to open a program there.

I believe a program such as we are dealing with here today can make an honest effort to assist these people who open these kinds of programs. They can help now if you pass this bill. Though I recently opened a second Fishing School in my neighborhood, there are still many other neighborhoods where another Fishing School is needed and a tax write-off like the one you are proposing today would provide a tremendous jump-start.

In fact, as I see it, your proposals are really about jump-starting programs all over the country just like the Fishing School. You can turn crack houses into Fishing Schools one neighborhood at a time until we have a Nation where Fishing Schools are the norm in our inner cities and crack houses are the exceptions.

Until we have a Nation where the Pizza man will deliver pizzas to children on any block in America.

Thank you for your time and patience.

[The prepared statement follows:]

Statement of Tom Lewis, Founder and President, Fishing School

Thank You Mr. Chairman, Members of the Committee. It's an Honor for me to be here with all of you today.

My Name is Tom Lewis. I'm a 20 year veteran of the Washington D.C. Metropolitan Police Department, an ordained Minister and the Founder of the Fishing School—an after school program for children in northeast D.C.

As a Police Officer, I met hundreds of young people in the inner-city. As part of my work, I visited D.C.'S Public Schools on a regular basis. I talked to them about the work I did and I taught them that Police Officers are their friends, that we're there to protect them and their families. The kids started calling me "Officer Friendly," a name that stuck for years.

Many times after I gave a talk, little children would come up to me and ask, "would you be my daddy?"

It broke my heart to see so many children—far too many—with fathers in prison and mothers on drugs. Mr. Chairman, they were virtually orphans.

In other parts of my police work, I all too often witnessed the results of that kind of childhood: robberies, drug addiction, even murder.

I once remember finding the body of a man who had been dead for four days, killed by another man's bullet. The stench from that body was repugnant, even painful, but not nearly as painful as the stench of poverty that emanated from the community around me; the stench of child abuse; the stench of crime; of drugs. . .especially where children are involved, both as victims and—far, far too often—as perpetrators.

Through my police work, it became clear that someone had to do something to rid the community of this pervasive poison. I desperately wanted to help the children, but I didn't know what to do. I didn't know where to begin. I Just knew I had to do something.

In 1985, I purchased a building on wylie street—a street, once called the most dangerous street in the United States. God gave me a vision to turn that house into a place where children could be safe, where they could study, where they could learn right from wrong. When people asked (and still ask) why I chose such a dangerous street, I tell them, "because it's where these children live".

Taxis won't go there. Pizza delivery trucks won't go there. My brother-in-law, a police officer, won't go there with less than four officers in a squad car. The fishing school is an oasis, a haven on wylie street. Even the gang members, a few doors down, have been told by their leaders to leave us alone. and they do, because as one of them told me, "Mr. Lewis, we know you're doing good things with the children".

I named it the Fishing School based on the adage: "Give a man a fish and you'll feed him for a day; teach him how to fish and he'll feed himself for a lifetime." up to 35 kids crowd into our cramped building everyday. We have tutors who help them with their homework and work on their computer skills.

We teach them basic life skills like: practicing good manners, showing respect and practicing self-discipline. Those aren't skills adopted readily by any child, much less the child of a prostitute, the child of a drug dealer, the malnourished child, the abused child. And yet, everyday, I see tiny miracles at the fishing school. These children, despite their chaotic, even dangerous environments, show signs of getting the message. Catching onto kindness and decency and self-respect. Catching onto hope and confidence and the joy that comes from learning. Everyday, more and more kids on wylie street are learning to fish.

But I wouldn't want to mislead you into believing this is anything less that a slow and arduous process, and some of the children still won't eveN dare to dream. Some of them come to me as children who've never known a real childhood, with laughter and play and hopes and dreams. The Fishing School offers them hope. The Fishing School teaches them to dream big dreams and to work hard to achieve their dream, whatever it may be.

I once had a banker visit The Fishing School to teach the children about finances. One little nine year old boy asked him, "why are you wearing that suit and tie in this neighborhood?"

"These are my work clothes," the man explained. "As a little boy, I was very poor, but I decided when I grew up, I wanted to make something of myself. So I studied hard and worked hard and today I'm a banker, and this is what bankers wear to work".

And then he looked at the boy and said, "if you study very hard and obey your teachers, you can be whatever you want to be when you grow up".

"I'm not going to grow up to be a man," the little boy said. "I won't live that long. I'll probably get shot first."

Today that boy is fifteen years old. He's a good student. He plays on a basketball team. I believe he will grow up to be a man, and a fine one at that. And what's more, he believes it too.

He has something he didn't have six years ago as a little boy.. . .he has hope.

People who don't live in our neighborhood can't comprehend the hopelessness that invades the lives of our children like a thief. They watch the evening news and shake their heads at "those kids" in the inner-city who join gangs, sell drugs, and bring babies into the world at an alarming rate. They shake their heads and breathe a sigh of relief that their kids are safe-or at least safer-in the suburbs and in their private schools. I Don't blame them. I hope my kids will someday live in safe neighborhoods, too.

But I want to tell those people who only know the kids in my neighborhood from what they see in the media, that these aren't really bad kids. The boys that join the gangs. The girls that have babies they can't support. They're undisciplined and they're reckless. And their behavior isn't moral by anyone's standards.

But what most people can't comprehend is that these kids—many of them—have never been told they have a choice. For many of these children, they believe it's the only way they can belong. The only way they can have an identity. It's the only way they know how to get love and acceptance. They don't know there's any other way.

If you say, "but don't they understand this kind of behavior will ruin their future?" The vast majority of these kids would look at you and reply, "what future?"

It's up to us to give these kids a future. And how do we do that? By giving them hope.

By showing them the world outside their neighborhood. At the fishing school, we often take field trips to the museums all over town to Goddard Space Center. . .we bring them up here to capitol hill to learn about congress, and to the many other historic landmarks that make our city so rich.

We show them the world of books and bring in volunteers who inspire them in a variety of subjects. We teach them about virtue. We teach them about self-respect and respect for others. And at the Fishing School, we teach them about god and the dignity he has bestowed on each one of them. We often pray for their families and friends and for their futures. It's all about hope at the Fishing School

I encourage each child to find his or her strengths. For the boy who is good at carpentry, I have him help me build things. For the children who can write, I encourage them to read their work to audiences at Border's Bookstore. To the young man who wanted to dance, I found him a tutor. He went on to join the Washington Ballet where he danced in the Nutcracker Suite next to the president's daughter. He has now moved to new york where he has joined the theater. One young lady, just this year, left for college. She's the Fishing School's first graduate to go onto college. I expect there will be many more.

You see, I don't just want these kids to survive. I want them to thrive.

I believe the Fishing School works not because I spend a lot of time lecturing kids on the dangers of drugs. These kids know how dangerous drugs can be. They have sick-and in some cases dead—brothers and mothers and fathers to prove it.

They don't need my lectures. They need my love. Tough love at times, but love just the same. Over 97% of the children who come to the Fishing School have no fathers in their home. I'm the only father many of them will ever know. And I take the responsibility very seriously. Their achievements and failures affect me just as much as if they were my own flesh and blood.

Everyday, I help each child focus on his or her gifts and talents and abilities. Just because a child is poor, doesn't mean he's bereft of god-given talent. But what is often the case, the child is without anyone who will unleash that talent and encourage him, encourage her to cultivate that talent. at the fishing school, we do this everyday, and everyday we see results both large and small.

I believe that there is a need for a fishing school in every inner-city of this country. My cousin has been trying to open such a school in rural North Carolina for several years. Like most people with the will and the interest to open this type of school in a depressed neighborhood, my cousin lacked the money and thus had to wait until the right opportunity came along. For her, it came recently in the form of an old dilapidated gas station which was donated by someone in the neighborhood. This facility, like the one that was donated to me for one of my schools, is sorely in need of repair before it can really provide the benefit intended for the children. If the HR. 815, the American Community renewal act of 1999, and the proposed new markets incentive were to pass, costs for the start-up of these types of schools could be minimized by as much as 35,000 dollars. Specifically, the current proposals would allow persons who attempt to start a Fishing School program to spend 35,000 dollars—tax free—to equip and furnish the school.

I know up here on Capitol Hill, where you talk in terms of billions of Dollars everyday, a number like $35,000 sounds small.

But Mr. Chairman, to someone like my cousin, and others like her, $35,000 could mean the difference between starting and actually running an effective Fishing School and just dreaming about it.

Thirty-five thousand dollars can buy several computers, faxes, copiers and desks. It would buy needed books and kitchen equipment for those of us who feed the children. It sure would have helped when i got started ten years ago.

And it can help now if you pass this bill. Although I recently opened a second Fishing school in my neighborhood, there are still many other neighborhoods where another Fishing School is needed and a tax write-off like the one you are proposing here today would provide a tremendous jump start. In fact, as I see it, your proposals are really about jump-starting programs all over the country, just like the Fishing School.

You can help turn crack houses into Fishing Schools. One neighborhood at a time, until we have a nation where Fishing Schools are the norm in our inner cities, and crack houses are the exception.

Until we have a nation where the pizza man will deliver pizza to children on any block in america.

Thank you for your time and god bless you.

Chairman HOUGHTON. Thanks very much, Mr. Lewis

Mr. Cade?

STATEMENT OF WILLIE CADE, PRESIDENT, COMPUTERS FOR SCHOOLS ASSOCIATION, CHICAGO, ILLINOIS

Mr. CADE. Thank you, Mr. Chairman.

I want to give you a perspective of what it means to have donated computers in our school systems today from two perspectives. First, from the point of view of Chairman of the national association where we have 30 programs in States all over the U.S. that are donating used computers to schools and, from my own personal experience as the person in Chicago who does it.

Over the last nine years, our program has donated over 77,000 computers in 30 States in the United States. I am here to testify about some legislation that can actually help us get our job done. There are some amazing statistics in my mind when we get to our school systems and the computers that are in the schools.

Probably the most amazing one to me right now is that the computers in schools today on average are seven years old. If I was to look at a computer in my own private business that was seven years old, I would scrap it.

Our goal, with this legislation, is to encourage businesses to donate newer computers relative to the seven year old, computers that are less than three years old. It is codified in H.R. 2308 here at the House.

Our process would do three basic things with the new legislation. It would expand the currently existing 21st Century Classroom Act and it would expand it by adding one more year of eligibility on donated equipment for the tax benefit. It would include organizations that are now not included. Finally it would create an enhanced tax credit.

In 1999, there were 45 million computers that were delivered to industry or homes in the United States. This year, it is expected that 54 million computers will be installed. That is over 100 million computers in the last two years alone. If we can capture a mere percentage of that, in two years we would be able to supply the 12 million plus computers that will be required in our school system to make them technologically sound. That does include, by the way, all of the 107,000 schools that are in our country today.

I know today our hearings are specifically about empowerment zones. Most of the computers that I donate or work with in schools are computers that actually go into schools where students don't have a chance to have computers. An example that I saw last week was a school of 600 children on the west side of Chicago where the last three years the principal had locked up the computers because he didn't want them stolen. When I looked at the computer he was protecting, I suggested to the new staff at that point they probably should be stolen, that they were technology that had been around since 1980.

It is estimated that 50 percent of our labor force is going to be involved in the technology area in a few short years. It takes five years for teachers to actually integrate technology into their classrooms. We have done a marvelous job of getting Internet to the schools in the last four years. Currently 95 percent of schools in the U.S. have an Internet connection.

Unfortunately though, most of them don't have computers to connect to those wonderful T1 lines that are there. So I can go into the City of Chicago and find a T1 line, which is the equivalent of 24 telephone lines and find three computers connected to it.

We need computers in our schools in a big way. If we waited and bought new equipment at our current budget levels, it would take us 17 years to get the equipment there. I assume Congress and the rest of us are very sensitive with our dollars and I therefore assume level funding. If we do it with used computers, we could do it in two to three years.

The bill would encourage Pentium II level technology donations. Right now our minimum standard is a Pentium system operating at approximately 75 megahertz. That makes machines that are very well received in the schools.

I will stop at this point because my time has expired.

[The prepared statement follows:]

Statement of Willie Cade, President, Computers for Schools Association, Chicago, Illinois

Thank you for the privilege of addressing you on what I consider legislation valuable for the future of our country. I would like to begin by wholeheartedly thanking Congressmen Portman and Becerra for their strong support of this legislation. I am among the many students, parents, teachers and friends of education most grateful to Congressmen Portman and Becerra for their sponsorship of this far-sighted legislation and their championing of better technology in our schools, particularly schools located in empowerment and enterprise zones and on reservations.

My name is Willie Cade. I am the president of the Computers for Schools Association. I am responsible for the computer donation program called "Computers for Schools" in states and communities across the country.

The Computers for Schools Association has taken over the computer donation program initiated and run until recently by the Detwiler Foundation. The program refurbishes computers being retired from businesses to use in schools, places where the level of technology continues to lag significantly behind the business standard. Unofficially, we are the nation's single most productive source of donated computers to schools. We have facilitated donation of more than 77,000 computers in 30 states. Today I am here to testify about legislation that could vastly improve the educational environment of children located in some of our poorest areas.

The 21st Century Classrooms Act, part of the Tax Relief Act of 1997, was an attempt to enhance computer donations with more and newer technology. It provides businesses with an enhanced tax deduction for donation of equipment two years old or less.

Unfortunately, the promise of the Act has not been fulfilled. We at Computers for Schools have received more than a thousand calls regarding the Act and have worked with dozens of companies eager to put it to use. Most could not....for three primary reasons: the two-year provision did not fit their equipment use cycle, the provision was limited to original acquirers and the deduction enhancement did not provide significant incentive. In general, a business buys a computer with a three-year life cycle in mind. Asking business owners to donate equipment before that cycle is complete essentially asks them to take a loss on their equipment investment. Many in a position to donate-those with accelerated equipment use patterns-still found that the deduction provisions in the Act did not adequately compensate them for the loss of revenue they could receive by getting a fair market price for the machines.

Before us today is the New Millennium Classrooms Act, which builds on the foundation laid with the 21st Century Classrooms Act. It is our opinion at Computers for Schools that the New Millennium legislation will take us closer to accomplishing the intent behind the 21st Century Classrooms Act. Several elements of the bill are key in this regard; it expands the window through which donations can be made from two years to three and it provides for a more straight-forward tax credit for eligible donations -a tax credit that could be converted to a deduction to achieve the same effect. Additionally, the credit–30 percent for donations for unspecified direction-will rise to 50 percent when the donation is designated for enterprise or empowerment zone schools. This legislation also helps us expand the group of eligible donors and thus raises the potential for the significant donations intended. Lastly, the New Millennium Classrooms Act extends the law for 3 more years -current law will sunset at the end of this year.

The question before us today is whether reconditioned computers can play a significant role in getting current technology (multimedia capable) into the neediest classrooms. In 1999, 45 million new computers were sold in the United States. This year it is expected that 54 million computers will be installed. Assuming 50% of these computers were replacing systems currently in use, if we captured 15% of those replacement systems, we could put the number of needed computers in all our schools in three years. Unfortunately, donations of current technology are in the low single digits. The legislation will encourage the capturing of these computers, helping us to meet our goals, particularly in the most needy schools -those in enterprise and empowerment zones and on reservations.

Ladies and gentlemen of the committee, the legislation you are considering has the power to alter lives. I don't have to tell you we live in a world increasingly dependent on technology. By the year 2006 it is estimated that 50% of our labor force will work directly or indirectly in information technology. Our children and our society must be prepared for that world as thoroughly as is within our power. This is about life options-the ability and capability of students to make positive choices about who they are, what they can do and who they will become.

The New Millennium Classrooms Act helps open those options. The case for computer-aided teaching and its positive impact on academic achievement grows stronger every day. Secretary of Education Richard Riley emphasized the importance of technology in education. He noted that with an expectation of 70 percent growth in computer and technology-related jobs in the next six years, students who can use technology effectively will be in the best position to build rewarding careers and productive lives. But, children not exposed to technology will grow increasingly disenfranchised. All this while recent studies show that there is an increasing number of children who are being left behind.

Consider that children from lower income areas and many disadvantaged minority children, children less likely to have computers at home, are unfortunately also less likely to have computers in their schools. A recent National Telecommunications and Information Administration study shows that with regard to computers, the gap between White and Black households grew 39% between 1994 and 1998. With regard to Internet access, the gap between White and Black households increased by 37.7% between 1997 and 1998. Additionally there was a 73% gap in ownership between families earning less than $15,000 and $35,000.

At the same time, studies show that schools with 81 percent or more economically disadvantaged students as defined by federal education Title I eligibility, have one multimedia computer for every 32 students while a school with less than 20 percent economically disadvantaged will have a multimedia computer for every 22 students. Schools with 90 percent or more minority students have one multimedia system for every 30 students.

Now consider that the very students with the least technology available to them are the ones who can be helped most by its use. This was borne out by a recent City University of New York study that noted dramatic increases in test scores for disadvantaged students once computer-aided instruction was introduced or increased in their curricula. Computers are patient, persistent and operate with total equanimity. These characteristics have special relevance for disadvantaged youth growing up in tough, often less-than-nurturing surroundings. These are also the very youth helped most by this legislation because of its incentive clause to encourage equipment donations where they are needed most, to enterprise and empowerment zones. The New Millennium Classrooms Act is an act of empowerment.

Even outside the target zones delineated in the bill, our schools stand in dire need of technology upgrading. Depending on which figures you look at, our current students-per-computer ratio across the country is ten or 11 to one. That's about ten students for each computer. But that ratio includes millions of woefully substandard machines; 386's, 286's, Apple IIe's, even old 8086's and Commodore 64's. The best that can be said about these systems is that they're a step above typewriters, but even that statement is suspect. Getting serious, up-to-date education software installed on any of these is out of the question.

While that ten-to-one ratio of students per computer may sound promising, it needs to be put in another context. Statistics by the Educational Testing Service show a much lower students per computer ratio for multimedia computers. Multimedia computers are the type that provide adequate access to the Internet and to the kind of software that teachers find useful as teaching tools. The students-per-multimedia computer ratio increases even more in lower income districts. In an Educational Testing Service study conducted just a few years ago, the ratio of multimedia computers to students in lower income school districts was 1 computer to 32 students. This, while the Department of Education recommends that the optimal ratio of students per computer is five to one.

The New Millennium Classrooms Act would spur the donation of nothing older than Pentium II generation technology. This raises the bar in our schools where the average machine today is a circa 1993 model. If enacted, New Millennium accepts nothing built prior to 1997 and keeps that standard moving forward with the calendar.

In addition to its direct impact on teaching and learning, this bill provides other benefits to help us better prepare for the next century.

The Rand Institute estimates it will cost about $15 billion to provide US schools with the technology necessary to educate our children for the future. New Millennium helps us stretch the funds available, providing more opportunities for other critical technology needs such as teacher training, infrastructure and curricular software.

As we approach a preferable level of technology in our schools, this bill lets us do so in a cost-effective manner-easing pressure on federal and state budgets. I want to be clear; we do not advocate this legislation as a replacement to state and federal technology expenditures. This is, however, a way to limit the inflation of that spending. Many of you have already noted that a time of better budget health is also a time to be more mindful of spending. From a cost-benefit perspective, New Millennium helps keep the pulse of spending more even and secures more for less in the process.

New Millennium also triggers more business interest and involvement in our communities and our schools. I am not here to discuss the extent and nature of that involvement—that is for local schools and communities to decide. But the Act gives businesses another tool through which they can contribute to their communities. In the process those businesses are not penalized financially when they concentrate their giving on empowerment and enterprise zones. The Act also encourages the most environmentally sensitive of recycling options...re-use.

This Act also has Welfare to Work and workforce development implications. In our work, Computers for Schools is partnered with numerous refurbishing facilities where trainees are the chronically underemployed or unemployed. To give one example, our donations in New Jersey, which go through four state community colleges, are refurbished and outfitted for schools by former welfare recipients. They are learning skills that can move them so far ahead it turns welfare checks into distant specks in their rear-view mirrors.

Other trainees through our program include inmates at correctional facilities, students in vocational and technical schools and those in high schools and even middle schools. For all of them, the equation is the same; exposure to the current technology only enhances their training, making them more ready for key certifications such as A+ and MCSE or Microsoft Certified Systems Engineer. These skills are in high demand. They can make the transition from welfare to work, or crime to work, permanent. But it doesn't happen without the opportunity.

As we see it at Computers for Schools, opportunity is what the New Millennium Classrooms Act is all about. First and foremost, it opens a world of opportunity to students and teachers in the classroom. It gives local, state and federal budget makers the opportunity to extend their tight dollars. For business it's an opportunity to contribute to students and communities without being penalized in the process. And we have just noted how this legislation can help trainees.

The Community Reinvestment Act is about creating opportunity in areas long left outside the economic growth and success of America. The New Millennium Classrooms Act adds to the benefits of this bill by providing an opportunity to give the children in these areas access to technology in their schools and libraries. This access can be the great equalizer, but without it, we stand to disenfranchise our most vulnerable children and alienate them from the opportunities that could change their lives. The least we can do for these children, the future generation, is give them all the positive tools at our disposal to help them meet the challenges of the 21st Century. The New Millennium Classrooms Act does that.

Thank you.

Chairman HOUGHTON. Thank you very much.

Mr. Coyne? Mr. Portman?

Mr. PORTMAN. I appreciate the testimony of all three panelists. Mr. Lewis, God bless you for what you are doing with the Fishing School. I am from Cincinnati and you mentioned somebody from Dayton might be coming to talk to you. I know some folks in Cincinnati who might be interested as well and I want to get your card afterwards or whatever information you have.

Mr. Cade, as you know, the nexus here between the enterprise zones and the empowerment zones and the computer bill is that we give an enhanced credit if the donation is made to an enterprise zone, an empowerment zone or to an Indian reservation. It goes from a 30 percent credit to a 50 percent credit. Therefore, it does target schools that you have talked about, like the school in Chicago that really needs the help the most and really doesn't have the resources to go out and get the technology that is needed to allow these kids to be able to experience what they are going to need out in the real world in terms of high technology.

I have a few questions for you if I could go through them quickly in the time that I have because there have been some concerns raised about this legislation. As you said, it is competing with everything else and we want to be sure the dollars we provide through tax incentives are targeted and well spent.

There was an article in the Washington Post recently that addressed computer training for teachers. Do you think this legislation, H.R. 2308, addresses the issue of teachers not having adequate training to be able to effectively teach with computers?

Mr. CADE. Absolutely. First, let me thank you for your work on this bill and specifically H.R. 2308. It has been a great help to us.

One of the things we do with our donated computers is actually provide them for teachers in their homes so that they can operate on a personal basis with this. The only way I know to really learn today's technology is to have it in your home and have it be something you find personally useful. So we provide them to the teachers, they can take them home, and that is the only way it is going to really work in terms of teachers being trained on technology.

Mr. PORTMAN. The other thing we have talked about with your organization and with schools is they have a technology budget and if they can get some of the hardware, then they can spend more money on the Internet wiring, training or other things. They don't have room in the budget for the whole thing, so what you are doing in Chicago and around the country is allowing them to do more with regard to training.

Current law does provide for two year computers but not three year computers and there has been some back and forth on that. Could you address the criticism that this change would allow for donations of three year computers that would be out of date?

Mr. CADE. The current technology that is three years old is a Pentium II system running at 266 megahertz. Those are the kinds of systems that frankly are wonderful systems to have. They run every piece of software I know of in terms of the educational environment. As a matter of fact, when we go in with a Pentium 100 system, we are considered heroes. So this legislation actually goes beyond that and provides even a higher standard that we hope to attain with all of our donations.

Mr. PORTMAN. I appreciate that. I think that is true and I think the current law is just a little too restrictive. Why not make it three years. I just upgraded myself to that Pentium II. It is a huge difference and many schools are working not just with a Pentium but even earlier technology that a three year computer would be well received as you said.

There has been this sense that this legislation would make it more lucrative for a company to donate a computer than to sell it on the resale market. Can you talk about that?

Mr. CADE. My suspicion is that actually won't and I looked at the numbers, but it will actually give them a sufficient incentive to donate it to the schools. Right now there is just not enough of an incentive to do that en masse. There are a few individual corporations who do it but if we can get more and more to do it, it would help us enormously, especially given the task.

The other thing I might mention is our national goal has been to get five students for every one computer. We need to not lose sight of the fact that once we accomplish that goal, we have to repeat it again and again and again because of the nature of technology which changes so fast.

Mr. PORTMAN. The final question and I will pose it more as a rhetorical question. There has been the sense we don't want to force these schools to take computers they don't want. Is any school forced to take a computer they don't want, or any library or anybody else?

Mr. CADE. Sir, I don't have time to deal with schools that don't want computers, I have so many who do. I have never heard of one that doesn't.

Mr. PORTMAN. Obviously they don't have to accept the donation. Some schools aren't going to want them, some schools may have more hardware than they need but less of something else and may need something else like training or wiring.

Thank you very much for what you do around the country, and your organization. We hope we can expand this particularly into those communities that need it the most.

Chairman HOUGHTON. Thank you, Mr. Portman.

I just have a few questions. Mr. Cade, it is a fascinating program you are involved in. Several friends of mine and myself have been giving computers to a school in Zimbabwe. We don't care whether they go back to 1980; any computer in the schools there is very, very helpful, but I understand what you are saying. The Tax Relief Act of 1997 was of help.

Mr. Romeu, tell us a little bit about Section 30(a) prior to 1996?

Mr. ROMEU. Prior to 1996, Section 30(a) was available to US companies with Puerto Rico operations starting in 1994 through October 13, 1995. A number of companies in Puerto Rico elected Section 30(a) status. Section 30(a) was not available after October 13,1995 for new companies and new Puerto Rico operations. Although a number of companies including, among others, Sara Lee from the State of Illinois, have used Section 30(a), they are not able to make use of that section for new lines of business that were not in Puerto Rico in 1995. This is because not only is it being phased out with Section 936 until 2005, but it is not available to companies who are Section 30(a) and who want to bring in new operations and new lines of businesses to Puerto Rico. If they do, the Section 30(a) benefits are eliminated completely.

As it stands right now, there are a number of corporate citizens that do well that can't compete with other foreign jurisdictions with Section 30(a) because they will lose that incentive as of 2005 and there will be severe income cap limits in 2002.

Chairman HOUGHTON. Thank you very much.

Mr. Lewis, I don't have any questions for you but I think that was as compelling testimony as I have ever heard here and I thank you very much for it. I also thank you for the fact you weren't given very much time to prepare. You are a good sport and you are very articulate. If you could give me some more information on this individual in Augusta, Georgia, that would help me tremendously.

Mr. LEWIS. Yes, sir. I do have that information.

Chairman HOUGHTON. Good. That is wonderful.

Are there other questions? Mr. Portman? Commissioner?

[No response.]

Chairman HOUGHTON. Thank you again, so much for this great help this afternoon.

There being no further business before the subcommittee, the hearing is adjourned.

[Whereupon, at 4:39 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

ASSOCIATION OF AMERICAN RAILROADS
WASHINGTON, DC 20001
April 4, 2000

Dear Mr. Chairman:

The Association of American Railroads (AAR) submits the following comments in connection with the hearing held by the Subcommittee on Oversight of the Committee on Ways and Means on Tuesday, March 21, 2000 concerning tax incentives to assist distressed communities. AAR asks that the comments be made a part of the hearing record.

BACKGROUND

Freight railroads move just about everything—from lumber to grain, from chemicals to scrap iron, from orange juice to new automobiles. Overall, railroads carry more than 40 percent of U.S. intercity freight, including 64 percent of the coal shipments which are used to generate 36 percent of our nation's electricity.

In 1998, Class I railroads operated 20,250 locomotives across a network of more than 132,000 route miles. Collectively, these locomotives consumed 3.6 billion gallons of diesel fuel transporting freight at a total cost of more than $2 billion.

Higher Diesel Prices

In recent months, railroad diesel fuel prices have risen by more than 80 percent, causing the cost of fuel to jump sharply for an industry which is already highly energy-intensive. This rise is attributable to a considerable tightening in world oil markets during the last year as OPEC and other exporting countries have cut production.

As a result, on an annualized basis, railroads today are paying about $1.3 billion more for fuel than they were just 12 months ago. Placing this into perspective, $1.3 billion represents the equivalent of 700 new locomotives or double tracking some 1400 miles of rail line. These higher fuel costs have significantly reduced railroad cash flows which are essential to sustain the substantial capital investment required by the industry. More important to the subject matter of the Subcommittee's hearing, a portion of these increased fuel costs are passed along to freight shippers and other railroad customers, including agricultural communities.

Distressed Communities

Our nation's rural farming communities, many of which are located in economically disadvantaged areas, are highly dependent on efficient and economical methods of transportation to move their agricultural produce to market. Railroads transport the bulk of agricultural goods to market in the United States. The higher transportation costs attributable to the dramatic rise in diesel fuel have equated to lower profits for our nation's farmers, as well as lost sales in both domestic and foreign markets.

Proposed Legislation

One solution to help reduce the burden of high fuel costs on both economically distressed farming communities and the nation's railroads would be to enact H.R. 1001, the Transportation Tax Equity and Fairness Act. This legislation, which is pending in the House Committee on Ways and Means, would repeal the inequitable 4.3 cent-per-gallon deficit reduction motor fuel excise tax that is currently imposed on the nation's railroad and barge industries. This unfair tax is exacerbating the impact of higher fuel prices both on the railroad industry and its customers in economically disadvantaged communities. The measure would allow distressed farming communities to improve their profit margins which have been squeezed due to increasing diesel fuel costs and enhance the railroad industry's ability to keep shipping rates reasonable, while it continues to invest in necessary equipment and infrastructure improvements.

The American Farm Bureau Federation, the American Soybean Association, National Association of Wheat Growers, National Corn Growers Association support efforts to repeal the 4.3 cent-per-gallon deficit reduction motor fuel excise tax to help revitalize distressed farming communities.

AAR is pleased that Congress recognized the importance of repealing the 4.3 cent deficit reduction fuel tax last year by passing the measure as part of the Taxpayer Relief Act of 1999. Unfortunately, the President vetoed the legislative package for reasons unrelated to this issue.

Mr. Chairman, AAR thanks you for agreeing to cosponsor H.R. 1001 and urges enactment of the measure in the second session of the 106th Congress.

Sincerely,

Edward R. Hamberger
President and Chief Executive Officer

Statement of Hon. Phil English, a Representative in Congress from the State of Pennsylvania

Dear Chairman Houghton:

I would like to commend you for scheduling a hearing to address the issue of tax incentives for distressed communities. As such, I would like to bring to your attention a proposal to provide favorable tax treatment for qualified urban housing fringe benefit programs.

As you may be aware, a number of urban colleges, universities and hospitals are endeavoring to stabilize distressed or transitional urban neighborhoods by providing financial incentives to employees to purchase, renovate, and occupy houses in those neighborhoods. These programs, which have been very well received in the communities where they are offered, are intended to promote stability by stimulating housing demand, increasing the investment in maintenance of owner-occupied housing and keeping the middle class households within city boundaries.

I have introduced legislation, H.R. 3389, to stimulate and encourage neighborhood revitalization in our communities by excluding such housing incentives from taxable income of employees who purchase and occupy housing in distressed neighborhoods. I feel that excluding such benefits from income for tax purposes would make them more attractive to employees and thereby help to build and strengthen communities. In addition, by increasing the value of the housing incentives, the proposed benefit would increase employee participation in existing programs and encourage other institutions to establish similar programs.

The benefit of this proposal would be capped at $25,000, and indexed for inflation. H.R. 3389, however, would not delineate the form or scope of incentives that employers may offer. In particular, this proposal would not limit participation on the basis of compensation, as urban renewal strategies should seek to attract employees of all income levels.

I would appreciate your consideration of this proposal, as I believe it represents a way in which the federal government can be instrumental in addressing the challenges of revitalizing distressed communities. Thank you again for holding a hearing on this very important issue. I look forward to working with you in the future.

Sincerely,

PHIL ENGLISH
Member of Congress

Statement of F. Barton Harvey III, Enterprise Foundation, Columbia, MD

INTRODUCTION AND OVERVIEW

The Enterprise Foundation appreciates the opportunity to comment for the printed record of the Oversight Subcommittee's March 21 hearing on tax incentives to assist distressed communities. We commend Chairman Houghton and the rest of the Subcommittee for recognizing the importance of providing targeted tax benefits to encourage investment in communities yet to share in our nation's historic economic prosperity.

The Enterprise Foundation is a national nonprofit organization founded in 1982 by Jim and Patty Rouse. Our mission is to see that all low-income Americans have access to fit and affordable housing and the opportunity to move up and out of poverty into the mainstream of American life. Working with public and private partners, the Foundation provides low-income people with decent affordable homes, safer streets and access to jobs and child care. We have raised and invested more than $3.2 billion in loans, grants and equity to build or renovate 107,000 apartments and houses. Through our employment network we have placed more than 30,000 people in permanent full-time jobs.

We view revitalizing distressed communities as both a moral obligation and a market opportunity. It is, we believe, a moral obligation of a just society to assure that all its citizens have the opportunity to participate fully in that society. It is also a market opportunity because the very places that are most cut off from the mainstream of our society are also the largest untapped domestic markets for American business investment and expansion. President Clinton's New Markets Tour last summer demonstrated both propositions. I was honored to join the President on that tour, to visit examples of Enterprise's work in the Watts neighborhood of Los Angeles and the Pine Ridge reservation in South Dakota.

This statement focuses on two proposals the Subcommittee is considering in connection with its March 21 hearing: increasing the Low Income Housing Tax Credit (Housing Credit) cap and enacting the New Markets Tax Credit (New Markets Credit). The Enterprise Foundation strongly supports both these proposals and we urge Congress to include them in any tax bill it passes this year. Before discussing these proposals, however, we would like to comment on why we believe now is the time to provide these and other tax incentives to revitalize America's distressed communities and give a brief overview of the unique and essential role nonprofit community development groups play in community revitalization efforts.

NOW IS THE TIME TO INVEST IN AMERICA'S DISTRESSED COMMUNITIES

No one would dispute that we are living in a period of unprecedented economic prosperity for many Americans. No one would dispute either that some areas of our nation have yet to experience that prosperity. And few would dispute that one of the best ways to assure that our prosperity continues is to expand it to include those who so far have been left behind.

Assuring all Americans the opportunity for decent housing, good jobs and stable communities should not be a partisan political issue. We were heartened by Speaker Hastert and President Clinton's commitment to find common ground on how best to bring new investment and new tools to our nation's distressed communities. The principles of Speaker Hastert and the President's shared commitment were eloquently articulated and are worth repeating:

1. The Administration and the Congress should work in a spirit of good faith to develop a bipartisan effort to bring capital and new tools to the impoverished urban and rural parts of America so that individuals who live there will be empowered to renew their communities and develop new markets of economic opportunity.

2. Since these solutions need to come from within these distressed communities, both political parties need to put aside politics and ideological constraints, and participate in a process that focuses on solutions that can work in those communities without being subject to waste or abuse.

3. We believe that there are significant untapped new markets in both rural and inner city communities, which have unique competitive advantages, that, given the tools, can enable individuals in those areas to renew their communities.

4. To accomplish that, our goal is to responsibly and effectively empower impoverished communities with new equity capital, tax incentives and other tools needed to address these problems within their neighborhoods, nurturing new enterprises while providing private sector and government resources to empower communities to solve their long term problems.

5. These economic incentives must be seen as a complement to other efforts to strengthen education, housing, crime and drug-abuse reduction.[1]

We wholeheartedly agree with those principles. Given this commitment by the Speaker and the President to work together, we believe bipartisan agreement on a community revitalization bill is possible this year. We urge members on both sides of the aisle to take advantage of that opportunity. For if we do not seize the opportunity now, when our economy is stronger than ever before, when will we?

Nonprofit Community Development Groups Are Revitalizing Communities

It has been said that no social problem in America is not being solved by someone somewhere. Very often, that someone is a resident of a low-income community, working in or with a community development group to bring hope and opportunity to their neighborhood. Community development groups come in countless shapes and sizes and vary widely in scope and sophistication. They may be faith-based, established by a church or synagogue. They may be bank-sponsored, set up by a lender. They may be government-created or they may have grown on their own from indigenous block clubs, community associations and other neighborhood civic groups. They may focus on one activity, such as developing affordable housing, or several, such as economic development, social services and community organizing.

Despite and far more important than their differences, most community development groups share a few important characteristics. First, most are nonprofit, as their missions do not emphasize making money for themselves. Second, they are located in and accountable to the neighborhoods they serve. Third, like successful small businesses, they are entrepreneurial and creative, since tackling society's toughest problems on tight budgets demands it. Fourth, they work most effectively in partnership with other private sector, government and nonprofit intermediaries, such as The Enterprise Foundation, committed to community revitalization. Enterprise works with nearly 1,500 nonprofit groups in 550 communities nationwide.

Ultimately, nonprofit community development organizations are indispensable because they do what neither the public nor the private sector can or will do alone. Recent research indicates that there are more than 3,600 of them. Their achievements, in the toughest communities in America, are nothing less than extraordinary. These groups have produced approximately 550,000 affordable homes and apartments. They have provided nearly $2 billion in financing to almost 60,000 small and large businesses and developed 71 million square feet of commercial and industrial space. And they have created nearly 250,000 jobs.[2]

[1] "Shared Commitment to Empower America's Impoverished Communities," Statement by the Press Secretary, The White House, November 5, 1999.

[2] National Congress of Community Economic Development, 1999 Community Development Census, as excerpted in 2000 Advocate's Guide to Housing and Community Development Policy, National Low Income Housing Coalition, p. 6 and p. 14.

The Subcommittee is considering a variety of thoughtful, worthy proposals from members of both parties. All have merit and we commend their congressional sponsors and advocates for their intent. The remainder of this statement will focus on the two proposals that we believe would generate the most investment in distressed communities: increasing the Housing Credit cap and enacting the New Markets Credit. We urge the members of this Subcommittee and all members of Congress to strongly support including these two proposals in any tax bill Congress passes this year.

INCREASING THE LOW INCOME HOUSING TAX CREDIT CAP

In our view, any discussion of tax incentives to revitalize distressed communities, and, indeed, any comprehensive community revitalization tax bill, must start with the Housing Credit. Housing alone cannot turn around most distressed neighborhoods. But a decent, affordable place to live is the foundation for fighting poverty and disinvestment. Housing provides family stability, spurs additional investment and provides a tangible sign of hope to a community.

The Housing Credit is one of the most successful federal housing programs ever created. The more than one million homes the program has helped finance since its creation in 1986 account for virtually all the affordable apartments produced in this country since then. Three years ago, this Subcommittee held hearings on the General Accounting Office's (GAO's) exhaustive examination of the program. That examination—perhaps the most extensive ever undertaken by GAO—showed that the vast majority of Housing Credit properties serve lower income tenants, paying lower rents, for longer periods of time than required by law. The report further showed that Housing Credit developments are well maintained, managed and monitored for compliance with the strict requirements of the law.

Our Housing Credit investment subsidiary, The Enterprise Social Investment Corporation, has committed over $3 billion in private sector equity that has or will produce over 77,000 affordable apartments in distressed communities nationwide. This massive infusion of capital would not have been possible without the Housing Credit. In addition to financing desperately needed homes, generating jobs and fueling local tax bases, Housing Credit development sends a powerful signal that a community is coming back. This new investment has a powerful catalytic effect, inspiring confidence and triggering other investments in the neighborhood.

The only problem with the Housing Credit is that it cannot nearly keep up with the need for affordable housing in this country, especially in distressed communities. The annual Housing Credit cap, $1.25 per capita in each state, has never been adjusted since the program was created in 1986. As a result, inflation has cut the Housing Credit's purchasing power in half. Meanwhile, demand for decent, affordable apartments has exploded. Nearly five and-a-half million low-income households pay more than half their income for rent and/or live in dilapidated housing. Every year, tens of thousands of affordable apartments are demolished or converted to market rate use. It is no surprise that demand for Credits outstrips supply by more than three to one in most states.

Huge majorities of both houses of Congress and President Clinton have recognized the urgent need to update the Housing Credit for inflation and protect it from future erosion. Nearly 85 percent of the House—369 members—has cosponsored legislation (H.R. 175) sponsored by Mrs. Johnson and Mr. Rangel to increase the annual Housing Credit cap to $1.75 per capita and index it to inflation. The Enterprise Foundation sincerely thanks Mrs. Johnson and Mr. Rangel for their leadership on this vital piece of legislation. We also thank Senators Mack and Graham for their leadership on an identical Senate bill (S. 1017) to increase the Housing Credit cap. That bill has 77 Senate cosponsors. Finally, we thank President Clinton for proposing to increase the Housing Credit cap in his last three annual budgets.

ENACTING THE NEW MARKETS TAX CREDIT

All businesses need equity to succeed, especially those trying to make it in distressed communities. Consider the following recent comments by Federal Reserve Board Chairman Alan Greenspan:

"An important key to the success of small and large businesses is having access to capital and credit. Credit alone is not the answer. Businesses must have equity capital before they are considered viable candidates for debt financing. Equity acts as a buffer against the vagaries of the marketplace. . .Continued efforts to develop the markets for private equity investments will be rewarded by an innovative and productive business community. This is especially true in lower income communities, where the weight of expansive debt obligations on small firms can severely impede growth prospects."[3]

Using the Housing Credit and other tools, nonprofit community development groups have shown they can produce high-quality affordable housing in distressed communities. Many have found it more difficult to generate the business development and job creation their neighborhoods need to complement and reinforce new housing development. The President's New Markets Credit would provide an effective tool for doing that. We strongly support this proposal. We thank the President for proposing the Credit and Mr. Rangel, Mr. LaFalce and Ms. Velazquez and Senators Rockefeller, Robb, Sarbanes, Kerry, Kennedy and Daschle for their strong leadership on behalf of this proposal.

The New Markets Credit would provide a six percent annual tax credit for five years to "Community Development Entities" (CDEs) whose mission is providing capital in low-income neighborhoods. CDEs would include the nonprofit community development groups described earlier. CDEs would use proceeds from the sale of the Credits to finance commercial facilities, manufacturing plants, small businesses and community service centers in qualified communities. Qualified communities would be census tracts where the poverty rate is at least 20 percent or where the median family income does not exceed 80 percent of the greater of metropolitan area income or statewide median family income. The Treasury Department would allocate the Credit. The program would be funded at $3 billion per year for five years.

One of the most promising features of the New Markets Credit is its modeling on the Housing Credit. That bodes well for the program's success. The Housing Credit has channeled billions of dollars in private investment into distressed communities and spawned a sophisticated industry of community developers, intermediaries and investors who understand how to use a tax credit to revitalize low-income communities. These same entities will be prepared to utilize the New Markets Credit because it so closely resembles a program they already are using with such success.

While we strongly support the New Markets Credit as proposed by the President, we recommend two modifications included in Senator Rockefeller's New Markets Credit legislation (S.1526): extending the term of the Credit to seven years and targeting the Credit to low income populations in addition to low income areas. We believe these modifications would make the New Markets Credit even more effective.

Extending the Credit term from five to seven years would assure that new businesses in distressed communities receive the sustained capital investment they need to succeed. Community development lenders generally agree that business development in distressed areas typically requires a seven-to ten-year investment. We are concerned that a five-year term may not provide patient-enough capital to fledgling enterprises before their Credit subsidy would terminate.

Targeting the Credit to low-income populations in addition to low-income areas would enable distressed communities located outside poverty census tracts to benefit from the investment the Credit would generate. Senator Rockefeller's bill would provide the Treasury Secretary the authority to target the Credit in this manner. This more flexible targeting, similar to the targeting of the Community Development Financial Institutions program on the spending side of the budget, would be particularly useful in extending the Credit's benefits to rural communities. Many such communities would not be eligible for New Markets Credit investment without this change.

CONCLUSION

Expanding our nation's historic economic prosperity to include those yet to share in it is both a moral obligation and a market opportunity for our society. Congress can help meet that obligation and maximize that opportunity by enacting targeted tax incentives to revitalize our nation's distressed communities. Nonprofit community development groups and their partners have demonstrated what works in community revitalization. Now, they need the tools to continue rebuilding their neighborhoods. Increasing the Low Income Housing Tax Credit cap and enacting the New Markets Tax Credit would provide two such tools. We urge Congress to seize the opportunity to enact these proposals this year.

The Enterprise Foundation thanks the Subcommittee for the opportunity to submit this statement for the printed record.

[3] "Changes in Small Business Finance," Remarks at the Federal Reserve System Research Conference on Business Access to Capital and Credit, Arlington, VA, March 9, 1999.

Statement of Richard Moe, President, National Trust for Historic Preservation

The National Trust for Historic Preservation is pleased to have the opportunity to submit testimony for the record on tax incentives to assist distressed communities. The National Trust is a non-profit organization with more than 265,000 members, chartered by Congress to promote public participation and education in historic preservation and to engage the private sector in preserving our nation's heritage. Our mission is protecting the irreplaceable. As the leader of the national historic preservation movement, the National Trust is committed to saving America's diverse historic resources and to preserving and revitalizing communities nationwide.

The Internal Revenue Code contains numerous provisions that assist distressed communities. There are also numerous legislative and Administration proposals, many of which were detailed during the hearing. This testimony will focus on the commercial historic rehabilitation tax credit, which has been a component of the tax code since 1976, and on H.R. 1172, a proposal by Representatives Clay Shaw (R–FL) and John Lewis (D–GA) to expand the historic rehabilitation tax credit to include owner occupied historic residences.

The subject of this hearing, assistance to distressed communities, is an important issue and one of principal interest to the National Trust in accomplishing its mission. Over the decades since World War II, a combination of social and economic forces, abetted in no small measure by government policies and programs, has produced a steady migration of population and business activity from large and small urban areas. Left behind in the surge to the suburbs and exurbs is an enormous (but dwindling) inventory of sound housing stock and older commercial buildings, much of which has historic or architectural importance. Investment decisions have been greatly influenced by substantial subsidies provided for low-density, land consumptive development and the demolition of existing building stock through the well-intentioned but ultimately catastrophic bulldozing of established urban centers and neighborhoods under federal urban renewal and highway construction programs.

The decline and disinvestment of our nation's older communities puts their historic resources, and the neighborhoods themselves, at great risk. From 1980–1990, Chicago lost 41,00 housing units to abandonment, Philadelphia 10,000 units, and St. Louis 7,000 units. If we lose these neighborhoods, we will lose the physical fabric of our nation—where ordinary Americans have worked, played, learned, prayed, and participated in the civic life of America. We will be losing, in short, the physical evidence of our history and the diverse cultures upon which it is built. These are not large mansions or house museums—they are the brownstones of Harlem, the row houses of Baltimore, the bungalows of Miami.

Tax incentives for historic rehabilitation cannot reverse demographic trends, restore fiscal solvency to cities and towns, fight crime, or improve education. What they can do is provide, at the margin, a corrective to the institutionalized bias toward out-migration of population and business activity and the consumption of open space at the expense of reinvestment in declining areas that are already equipped with buildings and infrastructure. In addition, where incentives are linked to the rehabilitation and reuse of buildings of historic or architectural value, the benefits of historic preservation—both tangible and intangible—can also be realized.

The federal commercial historic rehabilitation tax credit, which is a 20% credit for rehabilitation and preservation of income-producing properties, is the nation's most effective federal program to promote urban and rural revitalization and to encourage private investment in rehabilitating historic buildings. According to the Annual Report for Fiscal Year 1999 entitled *"Federal Tax Incentives for Rehabilitating Historic Buildings"* produced by the National Park Service, the commercial historic rehab tax credit has generated over $20 billion in historic preservation rehabilitation since its inception in 1976.

In 1999, the commercial rehab tax credit was used to create or improve over 13,000 rental housing units, a third of which now house low and moderate-income tenants. Taking into account new construction, which often takes place in conjunction with approved rehabilitation and is ineligible for the credit, the program leverages far greater than five to one in private to public investment in the preservation and renewal of our older communities. In 1999, the rehab tax credit leveraged $2.3 billion in private investment, at a cost to the federal treasury of less than $475 million.

As a result of this remarkable incentive, citizens across the country have rescued landmark railroad stations, hotels, schools, and office buildings from decay and demolition. These restorations frequently catalyze reinvestment in the surrounding neighborhood, thus adding value beyond that of the rehabilitation itself. Historic preservation fueled the "back to the city movement" of the 1970s and 1980s, bringing new life to abandoned and deteriorated warehouse districts, waterfronts, downtowns, and other remnants of an area's history and settlement which had previously been in tatters. Today, fueled by a real estate boom, strong national and regional economies, and resurgent interest in distinctive, walkable, close-in neighborhoods, the commercial rehab tax credit is experiencing strong and steady growth on an annual basis.

Moreover, in 15 states around the country, the federal tax credits can be combined with state rehabilitation tax credits to make large-scale, historic renovation projects feasible. In St. Louis, a $250 million renovation is planned for historic Cupples Station that will encompass a 260-room hotel and a mixed-use complex with nearly 500,000 square feet of office space. The 12 acre project, which will include the renovation and development of a 10 building complex, will utilize both the federal historic rehab tax credit program and a new program of state tax credits passed by the Missouri legislature last year. Already, the Missouri credit has given rise to nearly 20 projects in downtown St. Louis.

As the St. Louis example illustrates, the combination of federal and state commercial tax credits make feasible large-scale commercial projects that might otherwise not get off the ground. Several states also have a residential rehab tax credit program to accomplish the same goals for homeowners and home buyers. Connecticut's Historic Homes Rehabilitation Tax Credit Program is billed as "a catalyst for renewal in urban neighborhoods." The program establishes a tax credit up to 30%, with a maximum credit of $30,000, of the eligible rehab costs for owner-occupied historic buildings containing one to four dwelling units. The program targets urban areas in 29 Connecticut towns and cities such as Bridgeport, East Hartford, New Haven and others that need renewal and revitalization.

What our states and cities need is a corresponding federal tax incentive that will support efforts underway at the state level to address the problems of blight and abandonment that threaten older residential neighborhoods and communities. Neither the proposed New Markets Tax Credit, which the Administration and several Democratic members of Congress are proposing, nor the "American Community Renewal Act" championed by several House Republicans, would address the need for a targeted incentive for residential neighborhoods and moderate income home ownership. Such an incentive is badly needed. As any inner-city developer, community organization, or public official involved reclaiming distressed communities knows, projects designed to help residential neighborhoods always involve a carefully constructed financial package that operates on a narrow margin.

Clearly, this is no time for massive government programs, which might or might not be successful in helping to preserve these resources. What is needed is an incentive that will involve a minimum of government involvement and a maximum of individual initiative, one that is modest in cost, and limited in scope but can spark broad private activity. H.R. 1172, the Historic Homeownership Assistance Act, introduced by Representatives Clay Shaw and John Lewis, is a fair, feasible, and effective answer.

H.R. 1172 is designed to promote home ownership, historic preservation, and community revitalization. The legislation would create a 20 percent federal tax credit for rehabilitation expenses in connection with a the historic rehabilitation of an owner occupied historic home or an eligible structure in a national, state, or locally designated historic district. As passed by the Senate, the credit can be used only for substantial rehabilitation projects in historic districts where the median family income is no more than twice the state median income.

Because of its potential to help older distressed communities, restore historic neighborhoods, and in doing so combat sprawl, H.R. 1172 enjoys broad bi-partisan support: it has been cosponsored by 197 members of the House of Representatives, including 25 members of the Ways and Means Committee. The Senate version, S. 664, sponsored by the late Senator John Chafee (R–RI) and Senator Bob Graham (D–FL) has garnered 35 cosponsors.

Last year, the Senate passed a slightly modified version of the legislation, providing a tax credit of 20 percent for qualified rehabilitation expenditures up to $20,000 as part of S. 1429, the "Taxpayer Relief Act of 1999." The Senate-passed version targeted the tax credit to homeowners in historic districts where the median income was no greater than 200% of median family income. The final tax package passed by Congress last November, which President Clinton vetoed, contained a historic homeownership deduction proposal which would have allowed taxpayers to deduct

50 percent of the costs of qualified rehabilitation expenditures on a historic home, up to $100,000.

The National Trust supports the Senate-passed version of the historic homeowner tax credit because it would provide greater benefit to low and moderate income neighborhoods. A historic homeowner tax credit would provide a much needed boost to older neighborhoods in our cities and small towns, where once vibrant communities decline for want of adequate incentives for reinvestment. This tax credit would be a tool both for do-it-yourself homeowners and community development corporations that are trying to turn around depressed areas. Contrary to popular perception, most historic districts are home to people of modest means. And the targeting requirement in the Senate-passed version of the bill means that wealthy historic districts would not, in any event, be eligible for the credit.

According to National Park Service and Census Bureau data, more than 50% of all buildings eligible for the proposed historic homeownership tax credit are located in National Register Historic Districts within census tracts with poverty rates of greater than 20 percent. Lower income people tend to live in old buildings, which makes historic preservation a highly effective community revitalization tool targeted to the less affluent. Places like Georgetown and Annapolis are what people think of when they hear the words "historic district." But in fact, they should be thinking of Anacostia, where there are 550 historic buildings in a National Register Historic District, or the Greater Fourteenth Street Historic District here in Washington, where there are 485 historic buildings.

The historic homeowner tax credit would help spur revitalization of small town neighborhoods such as Southside Historic District in Corning, New York, as well as inner-city historic neighborhoods such as Quaker Hill Historic District in Wilmington, Delaware. Both of these neighborhoods were important to the settlement and history of their communities, but in recent decades have experienced decline and deterioration of their diverse historic housing stocks. A historic rehab tax credit would help bring reinvestment to these neighborhoods and utilize their rich mix of architectural styles as part of an overall revitalization strategy.

According to the National Park Service, there are now almost one million buildings nationwide that are already in historic districts on the National Register which were built as housing or could be used for housing. Moreover, there are many more neighborhoods—particularly in low income areas—that are eligible for listing in the National Register of Historic Places but have not been listed because there has been no impetus to do so. The universe of lower-income districts and communities that could be served by the credit would grow if the credit were enacted, because there would be an incentive to get them registered.

For those with insufficient tax liability to use the credit—including the 72% of all Americans who do not itemize their deductions—the bill provides a fair and simple mechanism by which the credit can be transferred to the bank or mortgage banker making the mortgage loan. The lender then would pass the value of the credit to the homeowner in the form of a reduced interest rate, or in distressed areas, as down payment assistance. This legislation has been designed to help boost moderate income renters into homeownership, to give them a lasting stake in their community which will bring new vitality to areas that have suffered a spiral of neglect and despair.

Mr. Chairman, our struggling communities need to regain many things that they have lost. The Historic Homeownership Assistance Act enjoys extraordinarily broad, bi-partisan support because Members recognize that it holds great potential to assist our cities and small towns in reinvesting in what is already there—the people, homes, and neighborhoods that have constituted their communities. I want to thank you for your support for this legislation and for the opportunity to provide testimony for the hearing record.

Statement of Daniel Godfrey, North Carolina A&T University, School of Agriculture, Greensboro, North Carolina, and Richard Jones, University of Florida

Initiative for the Development of New Markets in Underdeveloped Communities

America Needs A New Initiative for the Economic Development of Communities

For the first time in three decades, the United States government is in the black. The federal budget switched from a $290 billion deficit in 1992 to a $69 billion surplus last year. Yet, while wages are rising and welfare rolls are shrinking in most of the nation, persistent economically depressed communities still exist. The President and many in Congress have indicated that these people should not and will not be forgotten. While the economy has created nearly 19 million new jobs since January 1993 and unemployment has dropped from 7.2 % to just 4.3 %, there is more work to do. Several rural communities, such as Appalachia, the Mississippi Delta, Native American communities, and others have poverty rates over 30%, high school drop out rates over 50% and some reservations have unemployment as high as 80%. It will take a broad, yet, localized approach to begin breaking these persistent cycles of economic depression.

Of course, private industry investments are essential for community development and traditional tax credits are an excellent mechanism to spur growth. However, there are other elements that struggling communities need. Coordinating outside resources, infrastructure development, children and youth programs, and workforce training are areas that traditional tax credits inadequately address. For example, a small town in New York may be 100 miles away from a city of significant size and they have a company interested in relocating to their region. Of course, the company will build their building and the surrounding streets; however, they want to bring 1000 new families to the area that need a place to live but the city cannot support this influx of people. How do they find engineers to design their roads, properly trained city planners, or achieve a bond rating high enough to fund new projects. These communities need access to a variety of professionals that do not typically locate in such areas.

Role of Land-Grant University's Extension and Research Programs

Land-Grant Universities with their extension and research staff can help small towns and cities overcome these obstacles. Extension agents have daily experience coordinating efforts between federal, state, and local interests and give local individuals ownership in the development process. However, universities are having to decrease staff designated to these activities because of lack of adequate federal and state funding. A program needs to be developed that:

-provides adequate base funding for extension and research at universities,

-encourages all federal agencies and their state counterparts to work together at the local level, and

-creates new tax credits that stimulate private industry to make investments in communities beyond the direct needs of the company.

Elements Necessary for Successful Development of Under-served Areas

1) Underdeveloped communities, whether urban, rural or suburban, need creative, sustainable economic development strategies. These strategies must be designed and calculated to transform these under-served areas into self-sufficient communities. From the start, this requires local leaders who have the information needed to develop these strategies and technical assistance to make the strategies a reality. This provides citizens the opportunity to be involved from the beginning rather than later in a reactive mode. The Initiative should focus on providing programs to teach individuals how to communicate with one another and understand fundamentals of economic development. The initiative should also apply to both

2) It is futile to "reinvent the wheel." Communities need to develop communication and coordination mechanisms to be able to learn from each other about how to tap available resources of support. Local organizations, such as the extension service, are in place which have experience coordinating Federal Agencies and transferring information across and between states. Local organizations, which have the ability, can institute place-based solutions by selecting services from among the federal agencies rather than the federal government dictating a program to each community.

3) A local workforce investment initiative is an essential element of community development Workforce investment is one step toward building infrastructure that eventually reaches across several disciplines from family and youth support, to transportation, to business and industry, to agriculture. Any workforce initiative must include diverse organizations that can provide diverse services. The companies that are going to eventually invest in the community need to be assured they can find a skilled labor force and support services for that labor force. A system must be set up to train current workers and future employees. A strong school system with work training in high school is an example of an important tool toward attracting private sector investment. Several types of workforce programs for current and future employees exist; however, they are not reaching many under-served communities.

4) There is a need to provide community leaders with training necessary to build quality roads, parks, housing, utilities, childcare, and healthcare are essential. However, these services are not cheap and require, in some cases, the ability to issue bonds or raise tax revenue. Federal support to build roads, parks, or adequate housing is desperately needed. The New Initiative must establish a grant funding, low-interest loans, or direct funding for these infrastructure services. The funding program must be flexible so a community can access only what it needs. Thus, avoiding scenarios where one year only sewer projects receive funding and another year only healthcare projects receive funding. Communities must be able, as simply as possible, to receive funding to enhance the essential services they lack in a coordinated manner.

5) Private sector investment is crucial to achieve a successful long-term solution. More than 100 communities benefit from the Empowerment Zone/Enterprise Community provisions of the tax code. As most in state government and many in local government have known for years, certain tax incentives which attract private investment serve the public good as they deliver jobs and income which bring the public returns, often many times over, for their initial investment. Public investments like these have made good business sense to local and state governments for decades.

The New Formula

There are three important steps to successfully implementing an improved formula for community development: providing adequate base funding for extension and research at universities, encouraging all federal agencies and their state counterparts to work together at the local level, and creating new tax credits that stimulate private industry to make investments in communities beyond the direct needs of the company.

1. State extension services and research specialists across America, with the resources of their universities and a local understanding of community needs, can coordinate on a level beyond most organizations. Their place-based structure and flexibility allows the federal government to play a supportive role rather than the lead role and empowers the local community. These services can address the changing economic infrastructure in under-served communities and facilitate leadership development programs for community leaders and elected officials. However, without proper base funding extension programs cannot live up to their potential. Funding for extension programs has been stagnant for years. Yet, wages and staffing needs increase overtime. This has caused either reallocation of staff or loss of much needed personnel. Thus, an important delivery mechanism and resource is depleted in under-served areas.

2. This new approach will create a matrix of local, state and locally delivered federal services that reaches every community using local mechanisms. Under a matrix approach, the local delivery mechanisms of each federal or independent agency, including the Department of Agriculture, Department of Labor, the Department of Health and Human Services, the Department of Housing and Urban Development, Department of Commerce, Department of Transportation, Department of Education, Department of Energy, and the Environmental Protection Agency provide resources either through grants or direct assistance. Providing resources and enabling local community governments to grow and manage the human and public infrastructure necessary to maintain any community is necessary to attract solid private investment to these under-served communities. These federal and independent agencies already work directly with Extension Agents, Rural Development Centers, Councils of Governments, local officials, and other community-based organizations. Therefore, federal funds that support local resources such as extension agents must be provided so communities have a fighting chance. These organizations currently coordinate resources among state and federal agencies and local governments; however, a focused effort is needed to extend and formally encourage coordination with under-served communities.

3. Let us leave no doubt that the EZ/EC program has been a much needed initiative. However, new ideas in tax incentives are necessary to spur private investment in under-served communities. These incentives would focus on providing under-served areas the expertise to solve problems, the know how to coordinate resources, and knowledge of what other communities have done to help themselves. Some examples of areas where tax incentives might be helpful are:

-Encouraging companies to participate in distance learning opportunities for employees

-Stimulate specialty businesses to promote community programs related to their industry. For example, sports product companies assisting with after-school programs or food product companies sponsoring food safety/nutrition programs in schools and for employees

-Providing an incentive for companies to sponsor parenting classes

-Encouraging businesses to sponsor youth organizations like 4-H groups

-Spurring private companies to coordinate courses in family economics and financial planning.

These programs not only add benefit to the companies but provide needed resources to build strong communities. Research and Extension faculty provide training, modeling, and implementation of these programs and can work with business to implement these programs.

USDA AND THE LAND GRANT UNIVERSITY RESOURCES

USDA—Rural Development

As coordinator of the EZ/EC program, the USDA's Rural Development Office would be one of several crucial facilitators of a matrix model for under-served communities. By drawing from expertise throughout USDA and other parts of the government, the Rural Development office can facilitate crucial community infrastructure support from within a matrix of federal departments and independent agencies. In addition, they can contract with Land Grant Universities and extension faculty to provide telecommunications access for medical and training services, assists local governments in design of management systems and negotiating skills, and assists the private sector in developing markets and financing.

Cooperative State Research, Extension, and Education Service

The Cooperative State Research, Extension, and Education Service (CSREES) is the USDA Agency designated as the federal partner working directly with the Land Grant University System. CSREES provides resources, planning, coordination, and accountability efforts for research, extension, and higher education programs within the Land Grant Universities. In addition, the county extension offices are a matrix unto themselves in a unique state-federal partnership between the nation's 105 Land Grant Universities, USDA, and other federal agencies. Local extension agents can serve a key role as liaisons and facilitators on behalf of the communities and empower community leaders with the "How to Knowledge" to address their local mix of economic challenges.

Land Grant Universities

Small towns and rural places face numerous barriers of infrastructure, transportation, education, economic and other amenities that inhibit their full development. Knowledge and program content from the Land Grant University, located in each state, helps these community-elected officials build their knowledge of government accounting and management. Since their establishment, the land-grant colleges and universities have grown to represent to the world a unique system of widely accessible non-formal and higher education. Colleges of design and architecture can be tapped for advice and support for the community's infrastructure needs. Colleges of Human Science provide education and advice about childcare, human nutrition and health care and family financial management. The Colleges of Agriculture provide valuable support to both the rural communities and their families involved in food and fiber production. Rural Development Centers (detailed in the next paragraph) and Land Grant Universities have the ability to assess problems, build community coalitions toward planning and solutions, and access private and government resources. Within this structure, 1890 institutions contribute specialized expertise in serving predominately African-American communities and the 1994 institutions provide similar expertise for Native American communities.

Rural Development Centers

Four Regional Rural Development Centers coordinate research and extension activities of the Land Grant Universities in their specific areas of the U.S. They serve specific regional needs and share resources across the U.S. The Southern Rural Development Center is located in Starkville, Mississippi. The Northeast Regional Center for Rural Development is located at Pennsylvania State University in University Park, Pennsylvania. The North Central Regional Center for Rural Development is located in Ames, Iowa at Iowa State University. And finally, the Western states are served by the Western Rural Development Center located in Logan, Utah at Utah State University. Federal support for these centers should be expanded to scale up their contribution potential to a nationally focused matrix for under-served communities.

National Rural Development Partnership and the Rural Policy Research Institute

The National Rural Development Partnership, through 36 State Rural Development Councils and National Rural Development Council, brings together federal, state, local and tribal governments, as well as the private for-profit and non-profit sectors, to work in partnership for the improvement of rural America's communities. Also, the Rural Policy Research Institute (RUPRI) located at the University of Missouri is actually a consortium of several universities and since its inception has involved over 176 scientists representing 16 different disciplines at 67 universities all focused on policy analysis of the challenges, needs and opportunities facing rural America. Federal support for RUPRI should be expanded to scale up its potential contribution to a nationally focused matrix for under-served communities.

Other Related Resources/Organizations

There are additional organizations that USDA's Rural Development Office would need to work with as facilitators. These organizations have extensive expertise in community modeling, research, place-based solutions, and coordinating multi-level government programs. They include but are not limited to the National Rural Development Partnership, National Association of Counties (NACo), and the regional Councils of Government within each state. Each organization has a network which can prevent cities and communities from "reinventing the wheel" and using resources efficiently and effectively.

The National Association of Counties (NACo) represents over 75 percent of the nation's population through the member counties. The association acts as a liaison with other levels of government, works to improve public understanding of counties, serves as a national advocate for counties and provides them with resources to help them find innovative methods to meet the challenges they face. NACo is involved in a number of special projects that deal with such issues as the environment, sustainable communities, volunteerism and intergenerational studies.

Regional councils are organizations promoting regional approaches in dealing with the many problems facing America's communities. Typically, a regional council is created by joint agreement of the local governments they serve, usually in accordance with State "enabling" legislation. Both the State legislation and the joint agreement define the role, mission, duties, authority and geographic coverage of the regional council. Regional councils are governed by boards of directors that are comprised differently, depending on State legislation, but most are made up of local elected officials appointed by the local governments that created the council. Regional Councils are, therefore, actually local government organizations designed to study and recommend solutions to problems facing the region and to help their local government members plan for a healthy and prosperous regional community.

All of the organizations above support and strengthen individual state efforts in rural areas by developing networks of private and public sectors. These organizations study the basic building blocks of rural society. In the context of globalization and changing demographics, the solutions required for these under-served communities are increasingly complex and multi-dimensional. There are increasing numbers of public issues which must be resolved. Each organization has similar abilities to support their home-state under-served communities, but could be strengthened by providing targeted public investments and encouraging partnerships to nurture this development through coordination of a full range of community resources drawn from across the government.

Conclusion and Program Recommendations

We see an opportunity to build sustainable partnerships with rural stakeholders and to develop from the ground up national constituencies to support rural development. This national effort will provide a more efficient use of limited resources across the country, allow communities to find local solutions to local problems, and provide help to all communities at the level they need and not just most needy. Recent trends in declining local extension agents negatively impacts communities struggling to survive. With the proper support, we envision the Land Grant Universities as partners among equals in seeking a better life for rural people and a sustainable environment. Clearly, the people who live in these under-served places are the central actors, and will be the key developers if given the opportunity, knowledge, and resources that lead them to create their own solutions. A coordinated partnership among state, local, and federal governments can work with communities from a holistic perspective to meet the community's stated goals including self-sustained growth.

Statement of Hon. Mark A. Macarro, Pechanga Band of Luiseno Indians, Temecula, CA

I am pleased to have the opportunity to present written testimony on behalf of the Pechanga Band of Luiseno Indians in support of tax incentives to assist distressed communities. I appreciate the Subcommittee's interest in developing bipartisan legislation to revitalize and empower impoverished urban and rural communities through the infusion of capital and the development of new markets. As Congress begins to draft this legislation, it is critical that the unique needs of Indian Country are addressed in a useful way.

THE PECHANGA BAND OF LUISENO INDIANS: AN ECONOMIC REVITALIZATION SUCCESS

The Pechanga Band is a federally-recognized tribe with political jurisdiction and governmental authority over its reservation land of roughly 4,500 acres in the Temecula Valley of Southern California, and its 1,200 tribal members.

After centuries of destitution, Pechanga Band members feel a new sense of optimism and pride from the strong economic foundation we have begun with the success of our first economic enterprise, an entertainment center, which is the main source of tribal government funding for long-needed and previously unaffordable infrastructure improvements on the reservation. We are now upgrading substandard roads and housing, building adequate sewage and water storage facilities. providing security and emergency services for our people. We also can provide basic and previously unattainable life-sustaining services to our tribal members -such as health and social services, senior housing, child care, supplementary education and scholarships for advanced degrees and job-skill training.

In addition to employing our tribal members, Pechanga's economic development projects provide jobs that make life better for Indian and non-Indian people alike in the Temecula Valley. We are creating a demand for services and products that expand and support other local businesses. We take pleasure in the fact that we are beginning to be able to share with our neighbors and participate in the civic and charitable life of our community and throughout Indian Country.

WELL-CRAFTED TAX EXEMPT BOND AND OTHER INCENTIVES WILL HELP REVERSE CENTURIES OF POVERTY

We are proud of our economic successes so far, but there is much more work to do. The Pechanga Development Corporation (PDC) must generate jobs and governmental revenues, as well as new businesses, that will provide a steady and continuous flow of revenues to fund governmental services.

We urge serious commitment by Congress to enact targeted, commonsense and effective tax proposals that really will spur tribal and private sector investment and economic development in Indian Country, as a part of comprehensive community renewal legislation. In determining what is most likely to spur economic growth, we endorse the National Congress of American Indians (NCAI) recommendations based on the following principles:

- Indian tribal governments must be accorded the same status as State and local governments, and the ability of tribal members and their governments to determine their own development plans must be preserved;
- The role of tribal governments and nonprofit organizations in Indian Country economic development must be recognized and rewarded; and
- Tax incentives must be designed to increase the flow of loan and equity capital to Indian Country.

RECOMMENDATIONS

1. *Enact Tribal Tax Exempt Bond Authority.*

We concur with NCAI's recommendation that the community renewal bill include provisions based on those contained in the Tribal Government Tax-Exempt Bond Authority Amendments (H.R. 1946), legislation that has been introduced by Representative Shadegg.

Tax-exempt financing rules are overly restrictive for tribal private activity bonds. H.R. 1946 would remove some restrictions to give tribes the same rights state and local governments have to issue tax-exempt government and private activity bonds for such projects as low-income rental housing, electric generation facilities, water treatment plants, and solid waste disposal facilities.

For *tribal government bonds,* the bill would remove the "essential government function" restriction and instead require that the financed facilities be located on or near a reservation. Under current law, tribes can issue tax-exempt governmental bonds only for facilities used for essential governmental functions, like roads, sewers, schools. State and local governments do not have similar restrictions.

For *private activity bonds,* the bill would allow tribal governments to issue these bonds for various kinds of tax-exempt private activities so long as: the tribe keeps a 50% ownership interest in the financed facility; at least 95% of the net proceeds are used to finance tribal facilities; and no part of the bond issue proceeds is used for gaming.

2. Extend Investment and Employment Tax Credits.

In addition, we urge the Congress to include provisions, along the lines of the Indian Reservation Jobs and Investment Act, (H.R. 1945), which would allow tax credits to companies which locate on reservations certain kinds of income-producing property. Such property would have to be connected to existing tribal infrastructure, such as roads, power lines, water systems, railroad spurs, and basic and advanced telecommunication facilities. In this time of restrained federal spending, tax credits can spur the private investment that many Indian communities urgently need for infrastructure and economic development, job creation, and economic empowerment in the 21st Century.

CONCLUSION

We hope that we can count on Congress' firm commitment to include the strongest possible Indian provisions, such as tax-exempt bond and investment tax credit proposals designed to spur economic development in Indian country, in the community renewal bill as it moves forward.

Statement of George Herrera, United States Hispanic Chamber of Commerce

INTRODUCTION

Mr. Chairman and members of the Committee, I am the President and Chief Executive Officer of the United States Hispanic Chamber of Commerce (USHCC). The USHCC seeks to advocate, promote and facilitate the success of Hispanic businesses. The primary agenda of the USHCC is and will remain an economic one. Since its inception, the USHCC has worked towards bringing the issues and concerns of the nation's more than one million Hispanicowned businesses to the forefront of the national economic agenda. Through a network of nearly 200 Hispanic Chambers of Commerce and Hispanic business organizations, the USHCC serves as the national advocate for the growth and development of Hispanic entrepreneurs in the United States.

Today, the USHCC would like to express concern over current tax incentives for communities that have not fully participated in the economic prosperity of our country. We support President Clinton's and Speaker Hastert's incentives. Mr. Chairman, even you have emphasized the fact that we cannot afford to exclude anyone from such incentives. However, Puerto Rico will be left behind unless this Congress acts on the job creation legislation introduced by Representative Crane and Senator Moynihan to restore wage tax incentives to U.S. companies investing and creating jobs in Puerto Rico.

BACKGROUND

In 1996, the only federal tax program designed to encourage employment and investment in Puerto Rico was terminated; Section 30A of the Internal Revenue Code. While existing investments were protected through a grandfather provision, no tax benefits were made available for new companies or existing companies planning to expand into new lines of business. This has had a very negative economic impact on Puerto Rico's economy. In effect, it discourages companies from growing and penalizes companies that have grown the most. Since 1996, for the first time in modern history, few U.S. stateside companies have established new business operations in Puerto Rico. Existing companies have little incentive to create new jobs and investments or replace old equipment. If this continues, Puerto Rico will suffer by being excluded from the current economic growth and prosperity being experienced throughout the United States.

Under the leadership of Puerto Rico's Governor, Pedro Rossello, Puerto Rico has undertaken major efforts to diversify and expand key sectors of the economy, including manufacturing, tourism, research and development and trade. But even these efforts cannot indefinitely make up for the loss of all tax incentives for U.S. businesses. In 1998, Puerto Rico enacted a special incentive law providing additional tax benefits to companies that expand employment, invest capital, and conduct research and development in Puerto Rico. Puerto Rico is doing what it can at the local level. However, help is needed. Local efforts without a federal partnership cannot attract U.S. companies that are being lured to foreign locations such as Ireland, Singapore and other sites in this hemisphere.

The loss of U.S. jobs in Puerto Rico to foreign locations is equally harmful to the states. More than 65 % of all Puerto Rico purchases come from the states in the mainland. In 1998, this surpassed $14 billion, a substantial portion of which was directly imported by Section 30A companies. This translates into over 225,000 direct jobs in the states. If Section 30A companies continue to move offshore, billions of dollars of goods now purchased from American suppliers will be lost to foreign suppliers. This may lead to the loss of additional U.S. jobs, growth and federal tax revenues. It is important to understand that job creation incentives in Puerto Rico create jobs both in Puerto Rico and the mainland; diminish federal expenditures for social programs; and generate U.S. tax revenues. The alternative leads to the growth of foreign manufacturing, loss of U.S. jobs and little or no U.S. tax revenues.

MINIMUM WAGE IMPACT ON PUERTO RICO

Moreover, the likely increase in the federal minimum wage thwarts efforts to create jobs in Puerto Rico. When Congress passed the 1996 Small Business Job Protection Act, which provided tax benefits for businesses affected by the 1996 minimum wage increase, none of the tax breaks applied to any of the U.S. businesses located in Puerto Rico. Further, the revenues used to pay for these benefits were derived from the repeal of the job creation incentives for Puerto Rico. Therefore, minimum wage increases went into effect in Puerto Rico but U.S. businesses were not given an opportunity to offset the affect of the minimum wage increase the way their counterparts were given the opportunity in the United States.

It would be unjust as well as counterproductive to exclude Puerto Rico once again. It is also important to note that Puerto Rico is more affected by the minimum wage increase than any other American jurisdiction. In fact, because of lower overall wage levels, over 50 percent of the workforce in Puerto Rico comes within $1 of the minimum wage and would be directly affected by this increase. This is a level that is much higher than that of the workforce in any of the states and even the workforce nationally. Congress should therefore allow U.S. businesses located in Puerto Rico to offset any negative effects that a minimum wage increase will have on its businesses and its economy by allowing these companies to enjoy any tax benefits included with the enactment of an increase in the minimum wage.

THE JOB CREATION TAX INCENTIVE

There are other investment incentives being considered by this Committee, such as the community renewal proposals. However, because Puerto Rico does not fully participate in the U.S. tax system, it is insufficient to add Puerto Rico as a location that would be eligible for such incentives. Doing so would provide little to no direct benefit to Puerto Rico because in fact it would not apply to U.S. corporations in Puerto Rico. In the alternative, Section 30A job creation incentives provide exactly the kind of benefits to accomplish in Puerto Rico what these other incentives accomplish in the states. Section 30A rewards job creation and capital investments—the two elements necessary for economic growth. Congressmen Phil Crane, Charles Rangel, Jerry Weller and others are sponsoring H.R. 2138, legislation that would expand and extend Section 30A incentives for both existing and new businesses. This will encourage the development of new U.S. businesses and the growth of existing ones operating in Puerto Rico rather than in foreign locations.

Community renewal and economic development initiatives provide Congress a perfect opportunity to enable *all* Americans to participate in the economic prosperity of our nation. Affording Puerto Rico an opportunity to compete fairly will demonstrate the inclusiveness embraced by this Congress, by ensuring that the benefits reach all citizens nationwide. On the other hand, if Puerto Rico, which has a poverty level twice that of the poorest state, and unemployment of approximately 11%, is excluded from any job creation and economic development initiatives, a message of exclusion is sent to United States citizens residing in Puerto Rico and Hispanics throughout America.

It is essential that Congress address this inequity immediately. Existing law further restricts the remaining Section 30A incentives to existing businesses until 2002 and eliminates them entirely after 2005. This creates a significant disincentive for businesses considering expansion in Puerto Rico at this very moment. Section 30A expansion would restore a positive incentive program before more jobs are lost. The USHCC is committed to keeping American jobs on American soil, and with your help this objective can be realized.

Thank you.

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENATIVES
April 3, 2000

The Honorable Amo Houghton, Chairman
Subcommittee on Oversight
Committee on Ways & Means
U.S. House of Representatives
1110 Longworth House Office Building
Washington, DC 20515

Re: Testimony to Subcommittee on Oversight Regarding Tax Incentives For Distressed Communities

Dear Mr. Chairman:

The purpose of my letter is to forward to you a statement which I would appreciate having made part of the record of your Subcommittee's March 21, 2000, hearing on Tax Incentives for Distressed Communities. Additionally, I would like to request your assistance in including an Alaska Native Settlement Trust in any legislation which may be reported by the Ways and Means Committee as a result of your Subcommittee's hearing on this matter or as part of separate legislation.

As you will recall, you and I, along with your fellow Subcommittee members J.D. Hayworth, Wes Watkins and Scott McInnis, and 17 other of our colleagues co-sponsored H.R. 2359 last year to address a number of inequities and deficiencies in the existing settlement trust provision of the Alaska Native Claims Settlement Act. The purpose of such trusts is to "promote the heath, education, and welfare . . . and preserve the heritage and culture of Natives."

As my enclosed statement will set forth, Chairman Archer included a Settlement Trust provision in the House version of the major tax bill last year. Unfortunately, that provision did not include a key element of the Settlement Trust legislation that you and I and others co-sponsored. In order to remedy that deficiency and inequity and to concurrently make a significant contribution to helping distressed communities, remedial legislation similar, if not identical, to the bill you and others cosponsored, is critically needed.

I am enclosing an outline of a provision which is the result of consultations over the past two years with the Committees of jurisdiction, individual Member offices, and representatives of the Administration. My sense is that, while I still believe that the settlement trust provision you and I and others introduced as H.R. 2359 is a somewhat better approach, I am prepared to recommend that, in the alternative, we rely upon a modified approach outlined in the enclosed statement and outline.

I know the Alaska Native community is, as I am, deeply appreciative of your stepping forward last year to assist this effort through your co-sponsorship of H.R. 2359. I believe that we now have a genuine opportunity to achieve something of great importance that will assist the descendants of the original inhabitants of Alaska as well as assist distressed communities within our state in the years to come.

The Settlement Trust mechanism is particularly meritorious in that it utilizes funds which the Native Village and Regional Corporations generate themselves to help them attempt to address many health, education, welfare, economic, heritage and cultural issues facing communities. In short, this legislation represents a good investment and will have substantial and lasting benefits for distressed communities into the future.

Thank you again for your co-sponsorship of Settlement Trust legislation and your assistance in advancing this cause within the Ways and Means Committee through the attachment of a Settlement Trust provision to appropriate legislation the Committee may report to the House in the days ahead.

Warmest and best wishes.

Sincerely,

DON YOUNG
Congressman for All Alaska

Enclosure: Statement dated March 21, 2000

Statement of Hon. Don Young, a Representative in Congress from the State of Alaska

Mr. Chairman and Members of the Subcommittee on Oversight:

Thank you for holding this oversight hearing on the important issue of "Tax Incentives to Assist Distressed Communities." As Chairman of the authorizing Committee with oversight and legislative responsibility for the Alaska Native Claims Settlement Act (ANCSA), I appreciate this opportunity to bring to your attention an acute need for remedial tax legislation regarding a provision of ANCSA which holds promise for helping a number of economically distressed communities in Alaska.

I would like to urge your Subcommittee's support for inclusion of a provision to address deficiencies in the existing Settlement Trust provision of ANCSA in any legislation which may ultimately be reported from the Ways and Means Committee in response to your Subcommittee's oversight hearing on March 21, 2000, or as part of other tax legislative initiatives this year. The provision on which I seek your assistance and support would make more workable, and enhance the public policy objectives of, the ANCSA Settlement Trust provision and thereby provide a measure of relief to a number of economically distressed Alaska Native communities.

CONTEXT FOR NATIVE CLAIMS SETTLEMENT

As the Members of the Subcommittee may know, in 1971, the Congress enacted legislation to provide a settlement with Alaska's indigenous peoples regarding their aboriginal claims to lands and resources in areas in which their ancestors lived for thousands of years and which is today the State of Alaska. The context for that settlement was that oil had been discovered at Prudhoe Bay and our Nation sought to settle claims with the original habitants of Alaska, in part, to facilitate obtaining rights of way for the construction of the Trans-Alaska pipeline. A settlement with Alaska Natives not only was long overdue, it was needed to clear the way for the construction of a pipeline from Prudhoe Bay to Valdez, Alaska to transport petroleum reserves of the North Slope once they were developed and produced for further shipment to the lower 48 states.

ANCSA SETTLEMENT TRUST PROVISION

To facilitate the Alaska Native land claims settlement, Congress authorized the establishment of Native Village and Regional Corporations, a bold new concept born from the experience of the economic hurdles continuing to be faced by lower 48 Indian Tribes as they sought to help provide critically needed assistance to members of their tribes.

In an amendment to ANCSA in 1987, the Congress provided that Alaska Native Corporations could establish trust funds from their own resources (Settlement Trusts) "to promote the health, education, and welfare . . . and preserve the heritage and culture of Natives." The overall purposes for such trusts are similar to those associated with certain trust funds for lower 48 Native Americans. In general, in the lower 48 Indian Tribe context, trust funds are established from appropriated funds, court awards or receipts from hydroelectric dams or oil and gas leasing on tribal land; their establishment does not generate a tax obligation for the beneficiary; they are not routinely taxed on their interest earnings; and while some distributions from such funds are taxable at the beneficiary level, others are not.

Under current I.R.S. tax rulings, the Alaska Native Settlement Trust funds are established with private funding resources, i.e. the Alaska Native Corporations themselves; their establishment does generate an immediate tax obligation for the beneficiary if the Alaska Native Corporation has earnings and profits; interest earnings are taxed at the highest trust rate of 39.6%; and distributions by the trusts are taxed at the ordinary income tax rate of the beneficiary, subject to a tax audit for trust taxes paid by the trust in the current and prior years under a complex "throwback rule."

Furthermore, under current law, a Settlement Trust beneficiary would be required to prepay taxes on his or her share of the property transferred to the trust (to the extent of the corporation's earnings and profits) irrespective of whether the beneficiary ever receives any distribution from the trust. Such a beneficiary easily could pay more in taxes than distributions he or she would ever receive from the trust. This is particularly true of elders.

Although I am not advocating that Congress provide treatment to Alaska Native Settlement Trusts identical to lower 48 Indian Tribal Trust Funds, many of our colleagues and I do believe that this Settlement Trust provision needs remedial work. Such Remedial amendment would make it more equitable and productive in terms of carrying out the purposes for which it was authorized and thereby provide the additional benefit of assisting economically distressed communities.

UNIQUE CONDITIONS IN ALASKA

As you may know, much of Alaska remains predominately rural and in many cases, not just rural, but isolated and remote. For example, for many of our communities, people must oftentime receive emergency medical attention by personnel other than doctors or even nurses. In remote isolated villages in bad weather, frequently treatment other than first aid has to be conveyed to the medical caregiver by radio or telephone. If one faces a medical emergency and is lucky, he or she might be able to be air or boat evacuated to a larger location with better medical facilities.

In many areas of Alaska, unlike even the most rural areas of the lower 48, there are simply no roads. In many communities, people have to move from place to place by airplane, boat, dogsled, snowmobile, or on foot. Our State remains a frontier in many ways. Higher education remains out of reach for many Alaska Native children. Native language and culture are in danger of being lost from numerous social, economic and cultural forces today. Although much of national welfare reform has been positive, such reform, nevertheless, poses a particularly difficult challenge for the future to many Alaska Natives who are from rural areas where job opportunities are historically severely limited or simply not available.

In many of our rural Native communities in Alaska, sanitation is still a challenge similar to the way it was many decades ago in the lower 48. Many communities still use honey wagons for sewage disposal. . . others did so until only recently. Still others have only rudimentary sanitation facilities. Hepatitis rates, meningitis rates and teenage suicide rates are in a number of communities near or among the highest in the Nation. And, while rural communities have made progress over the years, many Alaska Native villages are still far behind similar rural areas of the rest of this Nation.

Additionally, because so many Alaska Natives in rural Alaska have not had the opportunity for conventional work as one would have in most areas in the rest of the Nation, many do not have the benefits of Social Security having simply not qualified for such benefits over the years in conventional jobs. Many villages have 2 or 3 or at most a handful of "for pay" jobs available. Unemployment rates (i.e. "not employed") of 20% to 60% are commonplace. Seasonal and non-seasonal unemployment in some regions can reach as high as 70% to 100%.

Because of not having easy or inexpensive transportation to markets, developing job opportunities in most villages is challenging far beyond what one would face in a rural community in the lower 48 states. Although Native Villagers are more dependent today on a partial cash economy than they were 10 or 20 years ago, today most rural Alaska Natives remain heavily reliant on a subsistence way of life. Nowhere else in our Nation are so many people so dependent on subsistence to place food on the table. The subsistence way of life and the heritage and culture of Alaska Natives are unique aspects of America and, are, and I hope you will agree, key parts of the diversity of our Nation that we in Congress should recognize, respect, assist, and conserve.

Mr. Chairman and Members of the Subcommittee, this is part of the back drop for the provision that I am seeking your support for today.

RECENT EFFORTS TO REMEDY INEQUITIES AND DEFICIENCIES OF ANCSA TRUSTS

Last year, 21 of our colleagues from both sides of the aisle and I introduced H.R. 2359 to address some of the inequities and deficiencies in the current ANCSA Settlement Trust provision. A similar bill (S.933) was introduced in the Senate.

Also, last year the Senate-passed version of the Taxpayer Refund and Relief Act of 1999, contained a Settlement Trust provision which was fairly balanced and achieved the twin goals of permitting transfers to settlement trusts without immediate taxation of beneficiaries and providing a mechanism to defer some trust income to ensure trust longevity. As introduced, that provision was virtually identical to S.933 and H.R. 2359. Unfortunately, the comparable House-passed version of the Taxpayer Refund and Relief Act contained remedial taxation of beneficiaries upon transfer to the trust, but did not include other key provisions. The House version was adopted in conference.

The attached outline of an alternative provision has been developed after numerous consultations over the past two years between the Settlement Trust Working Group from both Regional and Village Native Corporations and others within the Administration and relevant Congressional Committees and Member offices and staff. The enclosed proposal would greatly simplify the tax treatment of Settlement Trusts, correct deficiencies and inequities in the existing law, and would encourage the maintenance of these trusts to carry out the important purposes for which they were intended.

The proposal would require that all income from Settlement Trusts be taxed currently to the Trust itself at the 15 percent rate (or 10 percent if capital gains). Under current law, income distributed is not taxed at the trust level, but is separately taxable to each beneficiary. The 15% tax rate is likely higher than what a blended rate would be for all Alaska Natives. Instead of sending many complex K–1 or 1099 forms to thousands of beneficiaries, tax would be collected annually at the Trust level. I understand that these forms, for even a small Native village Corporation, can easily reach a foot or two feet tall. With this proposal, there would be no need for the added cost of administering an IRS audit activity to check on the compliance with thousands of Alaska Native beneficiaries since the tax would be collected once from the Settlement Trust. Distributions in excess of the income of a Settlement Trust would be treated as if distributed directly by the Alaska Native Corporation to the Alaska Native beneficiaries, i.e., first as a dividend to the extent of earnings and profits, thereafter as a return of basis, and a capital gain to the extent the distribution exceeded the basis.

Mr. Chairman, the extensive work that has occurred over the past few years to forge the foundation for this bill has been a genuine cooperative effort. A responsible, remedial Settlement Trust provision has strong bipartisan support and should have an even lower revenue estimate than the earlier provision incorporated in H.R. 2359, S.933 and in the Senate-passed tax bill last year.

I strongly recommend and request that this alternative provision outlined as an enclosure to my statement be included in tax legislation which may be reported from the Ways and Means Committee regarding distressed communities and in any other appropriate tax legislation the Committee may pursue this year. I will soon provide to your Subcommittee and the full Committee actual legislative language for this provision.

I deeply appreciate the consideration of this Subcommittee of my statement on this matter as well as the enclosed proposal, which holds such importance and promise for the original inhabitants of Alaska . . . and through them a number of economically distressed communities in rural Alaska.

Enclosure: Outline of Alternative Alaska Native Settlement Trust Provision, March 21, 2000

OUTLINE OF ALTERNATIVE ALASKA NATIVE SETTLEMENT TRUST PROVISION

1. *Taxation of All of Settlement Trust's Income to Trust.*

All of the income of an electing Settlement Trust for Alaska Native beneficiaries, whether or not distributed, would be taxable to the Trust itself. The rate of tax on all income would be 15 percent, except that capital gains would be taxed at the maximum capital gains tax rate of individuals in the 15 percent bracket (currently 10 percent).

2. *No Immediate Taxation of Contributions to Settlement Trusts.*

As in section 1332 of H.R. 2488, the Taxpayer Refund and Relief Act of 1999 as passed by Congress and vetoed by the President, transfers to an electing Alaska Native Settlement Trust would not be taxable to the beneficiaries of the Trust when the contributions were made.

3. *No Additional Tax on Trust Income Distributed to Alaska Natives.*

Because the income has already been subjected to tax at the Settlement Trust level, it would not be taxable a second time when distributed to beneficiaries. Therefore no Form 1099 or K–1 reporting would be required for this income. The trust throwback rule would not apply.

4. *Taxation of Distributions In Excess of Trust Income*

Distributions by an electing Settlement Trust to Alaska Native beneficiaries in excess of distributable net income plus undistributed net income would be treated as if they were distributed by the Alaska Native Corporation directly to the beneficiaries. Thus, the distributions would first be fully taxable to the beneficiaries in the year of the distribution to the extent of the previously undistributed earnings and profits of the Alaska Native Corporation at the time transfers were made to the Settlement Trust. (Reporting of such taxable distributions to the beneficiaries would be on Form 1099.) Further distributions from the electing Settlement Trust to the beneficiaries in excess of the earnings and profits accumulated at the time of the transfer to the Settlement Trust would be a return of capital to the extent of each beneficiary's basis in stock of the Alaska Native Corporation, and thereafter as capital gain. The earnings and profits of the Alaska Native Corporation would not be reduced upon transfer of monies into the Settlement Trust but would be reduced as taxable distributions made to beneficiaries out of the Alaska Native Corporation's earnings and profits, determined at the time of the contribution by the Alaska Native Corporation to the Settlement Trust. This concept was included in Section 1332 of H.R. 2488.

5. *Rationale*

Since many Alaska Natives are primarily in low tax brackets, taxation of the income currently to the Trust at a rate of 15% is more than fair to the Government.

Distributions of trust income by an electing Settlement Trust would be non-taxable, eliminating the need for a K–1 or Form 1099. The trust throwback rule would be inapplicable. Taxation of the amounts transferred by the Alaska Native Corporation to the Settlement Trust in excess of Trust income would be taxed to the beneficiaries as ordinary income to the extent of the Alaska Native Corporation's earnings and profits at the time of transfer to the Trust (unless distributions by the Alaska Native Corporation dissipated these earnings and profits), and thereafter as return of basis or capital gain as in the Conference Committee version of last year's legislation.

This approach in this legislative provision would be very efficient from a revenue perspective because all of the income would be taxed to one entity when it is earned, without application of the net operating losses of the Alaska Native Corporation, and no further paperwork or IRS audit resources would be necessary.