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THE FUTURE OF ROUND II EMPOWERMENT ZONES

HEARING

BEFORE THE

SUBCOMMITTEE ON RURAL ENTERPRISES, BUSINESS OPPORTUNITIES, AND SPECIAL SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

WASHINGTON, DC, JUNE 7, 2000

Serial No. 106–61

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE
67–149 WASHINGTON : 2000

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

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THE FUTURE OF ROUND II EMPOWERMENT ZONES

WEDNESDAY, JUNE 7, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON RURAL ENTERPRISES, BUSINESS,
OPPORTUNITIES AND SPECIAL SMALL BUSINESS PROBLEMS,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:45 p.m., in room 2360, Rayburn House Office Building, Hon. Frank A. LoBiondo [chairman of the Subcommittee] presiding.

Chairman LOBIONDO. Committee will come to order. I would first like to apologize to our panelists and guests for the delay, unfortunately, beyond our control. Welcome to the Subcommittee on the Future of Round II Empowerment Zones. I am going to have a brief opening statement and then turn to our ranking member for her opening statement, and then we will move into the first panel.

Good afternoon, ladies and gentlemen. Today the Subcommittee on Rural Enterprises, Business Opportunities and Special Small Business Problems is convening to discuss the Future of Round II Empowerment Zones. As many of you know, the EZ/ECs program was enacted in 1993. This 10-year program targets Federal grants to economically distressed urban and rural communities for social services and community redevelopment, and provides tax and regulatory relief. In what is now referred to as round I of the program, 104 empowerment zones and enterprise communities were created. As part of this program, each urban and each rural empowerment zone received $100 million and $40 million respectively in flexible Social Service Block Grant funds. In addition, qualifying EZ employers are entitled to a 20 percent credit on the first $15,000 of wages paid to certain qualified zone employees.

The Taxpayer Relief Act of 1997 authorized a second round of 20 EZ designations known as Round II Empowerment Zones. In the round II competition, 279 communities and groups of adjacent communities, 119 in urban areas and 160 in rural areas, competed for 15 urban and five rural zone designations.

In my congressional District in Cumberland County, New Jersey, we were one of the 15 urban areas to receive this designation on January the 13th, 1999.

Unfortunately, employers in Round II Empowerment Zones are not currently able to benefit from the hiring tax credit afforded to employers located in the Round I EZs. Additionally, the block grant funding that is available for Round I EZs has not been made fully available to Round II zones. Cumberland County should be receiv-

ing $10 million a year for the next 10 years. To date, they have received approximately 6.7 million, only one third of the amount of funding promised at the Federal level over two years. Business people, community groups and residents of the Round II Empowerment Zones have no choice but to sit through Congress' annual appropriations battles before they are able to construct, with a level of certainty, economic plans that will revitalize their community. Those of us representing one of these distressed communities in Congress understand the vital need to have full funding mechanism in place for Round II, as it is in place for Round I designations.

This is the second hearing that the Small Business Committee has held on this issue. The first was held on April 26th, 2000 in Mecca, California and was chaired by one of our witnesses, Representative Mary Bono. At that hearing, members of the community discussed their concerns with the uncertainty that Round II zones face and how these uncertainties affect their business plans.

Surely, these uncertainties are not what Congress intended to subject these communities to when we decided to create new empowerment zones. Indeed, with the newly reached agreement regarding the Talent-Watts Community Renewal Legislation, Congress runs the risk of creating a fractured structure of community development zones and forgetting about the promises made to communities that were designated Round II Empowerment Zones in 1999.

Over the last several years, our Nation has experienced an historic period of wealth creation. Our challenge now is to expand that prosperity to lower income families in rural and urban communities. Through empowerment zone opportunities, we invite low income working Americans to be participants in our strong American economy and to determine how resources will be used within their neighborhoods.

Today, we will hear from two distinguished panels of witnesses to discuss the future of Round II Empowerment Zones. On the first panel we have a member of our full committee, Representative Mary Bono. Additionally, I would also like to welcome Representative Mike Capuano. Mike and I decided several months ago to form the EZ/EC congressional bipartisan caucus to highlight the fact that the 20 round II EZ/ECs designated by the President in 1999 still have not received the full funding allotment they were promised.

Our second panel consists of Maria Matthews, the Deputy Administrator for Rural Development from the United States Department of Agriculture; Jerry Velazquez, Executive Director of the Cumberland County EZ; and Reverend James A Dunkins, Vice Chairman of the Cumberland County Empowerment Zone.

[Mr. LoBiondo's statement may be found in appendix.]

Chairman LOBIONDO. I look forward to the enlightening testimony of our witnesses, and now I turn to the ranking member for any opening statement she may have.

Ms. CHRISTIAN-CHRISTENSEN. Thank you, Mr. Chairman. I am pleased to join you this afternoon for this hearing on something that I consider to be an important issue, the future of Round II and also Round III Empowerment Zones. I would like to welcome our

panel of witnesses also, and especially extend a welcome to our colleagues, Representative Bono and Representative Capuano, and I look forward to hearing from all of you and learning your experiences and concerns and receiving some of your insights into this issue.

Coming from a particularly economically distressed community, the U.S. Virgin Islands, and having introduced legislation myself, H.R. 3643, to create empowerment zones for the territories because they are not included in any of these authorizations, the EZ/EC program has been and continues to be of major interest to me. To this subcommittee, which represents the interests of rural business particularly, it is important that we look at this program, which has the potential to be a lifeline to our often overlooked or forgotten communities, either urban or rural.

It is our responsibility to ensure that the EZ/EC program represents more than an empty promise, but that it will indeed provide the resources to enable parts of this country, which have not yet begun to share in its extraordinary economic bounty, to be able to do so.

Today's hearing focuses on whether or not, given the limited funding we have provided the opportunities to Round II Empowerment Zones, to realize the goals set out in their strategic plans. We will also explore the need for additional tax incentives and other tools to encourage investment in these zones and review the recent agreement on new market provisions.

The Taxpayer Relief Act of 1997 created what is now known as Round II of the empowerment zone enterprise communities, which provides for the designation of additional EZs. However, one of the major issues before us today is the fact that the Act failed to provide Social Service Block Grant funding for the second round, which was a key feature of that first round. Over the 10-year life of the program urban and rural EZs are each to receive 100 million and 40 million respectively. Currently, only 3 million for each urban zone and 2 million for each rural zone has been approved in Round II.

The Empowerment Zone program is a vital antidote to the economic and social problems confronted by distressed urban and rural areas in this country. According to Vice President Gore, Round I resulted in more than 80 million in private sector investment to the designated communities and unprecedented public private partnerships. Round II should add more substance to the program because the Taxpayer Relief Act designated 20 additional communities, making them eligible for a share of 50 million in proposed Federal grants over the next 10 years.

Despite these new provisions, the reason that we are all here today is because Round II lacks what it takes to fully empower these communities by encouraging the investment they need to make them whole. I must note at this point that it is the administration's goal and that of the Congress to obtain full funding for Round II of the Empowerment Zone program. Such legislation in the Congress would include H.R. 4463 introduced by Representative Bono, which would amend the Internal Revenue Code of 1986 to allow the empowerment zone employment credit for additional empowerment zones and enterprise communities and increase

funding for those zones and communities. It is important that we look at this legislation as we seek a remedy to improve Round II Empowerment Zones.

Last week, the White House announced an agreement between the administration and Speaker Hastert on the New Markets Initiative. This agreement incorporates a designation of yet a third round of EZs. We must look at the new components that that third round designation would add, either before creating a new program, or at least at the same time we consider the status of the current program.

I look forward to listening to your testimony and discussing these issues with you. Again, thank you for being here.

Chairman LOBIONDO. Thank you. We will now move to the panel. Congresswoman Mary Bono, we thank you for joining us. Mary has sponsored legislation that a number of us are cosponsoring, that would help in the funding scenario, and has been a very strong advocate. We thank you for your help and welcome you today.

STATEMENT OF THE HON. MARY BONO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. BONO. Thank you, Mr. Chairman. I would like to thank you and the ranking member for holding this hearing on the Round II Empowerment Zones and on H.R. 4463, the Empowerment Zone Enhancement Act of 2000.

As we continue to study the very exciting agreement recently reached between the Speaker of the House and the President regarding the American Community Renewal Act and the New Markets Initiative, it has become even more clear that we must finish the work that was begun in the Round II Empowerment Zones.

In 1997, 20 empowerment zones were authorized as part of the tax reconciliation package in the Balanced Budget Act. This second round of empowerment zones, 15 urban and five rural, were designated in January 1999. Unlike the first round, the Round II Empowerment Zones were not authorized to benefit from the employer wage tax credit, also referred to as the hiring tax credit, nor were there funds available to implement the strategic plans upon which the designations were made.

A couple of months ago, the Small Business Committee held a hearing in the Desert Communities Empowerment Zone, which I have the pleasure of representing. While this hearing discussed some of the positive initiatives that have begun in eastern Coachella Valley, it also brought to light the obvious need, especially in rural empowerment zones, for consistent funding as well as the employer wage tax credit.

I am concerned that Congress has an unfulfilled obligation to complete the process begun for the Round II Empowerment Zones. That is why I have introduced H.R. 4463, a bill to provide title 20 funding to the Round II Empowerment Zones and extend the hiring tax credit. I, along with my colleagues on the Round II Empowerment Zone Caucus, am committed to doing all that we can to ensure that we pass legislation to provide full funding along with the hiring tax credit for the second round empowerment zones and

complete the commitment that we have made to our distressed communities.

Thank you again for allowing me to testify on an issue that means very much to my district and to all of the Round II Empowerment Zones that are trying to better their communities. Thank you.

[Mrs. Bono's statement may be found in appendix.]

Chairman LOBIONDO. Thank you, Mary. Next is Congressman Mike Capuano representing Boston, Massachusetts. I want to thank Mike for all his effort and energy in helping with the caucus that we set up. He has been a tireless advocate. This has been a very strong bipartisan effort. Mike, thank you for joining us today.

STATEMENT OF THE HON. MIKE CAPUANO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. CAPUANO. Thank you, Mr. Chairman, and thank you for inviting me here, and thank you, Madam Ranking Member, although some day it ought to be chairman soon, I hope, nothing personal.

I really came to talk a little bit about promises made, promises broken, hope uplifted and hope shattered. That is what the EZs and ECs are all about. I know that many of the things that have happened in my community would not have happened without the promise of an empowerment zone. Some things have actually physically happened. We have had some social programs and we have had some investment, but we have many things in the pipeline that if we don't get the funding that we were promised, will never come to fruition, which I personally think is the worst thing that any government can do, which is to tell people we are going to help you, we are here to help and then walk away. And I honestly think, in many ways, that if we are not going to fund the Round III, we shouldn't designate them, just walk away, forget it and don't do it.

I know in Boston, as you said, the numbers are the same. We are only getting 33 percent of the money that we were promised to get, and that money has been put to great use. People have been hired, money has been invested. We have already leveraged, I think the number is, about $700 million are either leveraged already or in the pipeline to be leveraged on projects to go into some of the poorest areas in my district.

And I know that many people think of places like Boston as a wealthy area, and in general, that is true, but the empowerment zone in Boston represents the area of the city, the typical core area of the city that has been walked away from years after years after years from all government agencies that are now mostly populated by minorities, many of whom don't speak English.

If we don't reinvest in those communities, you are going to have nothing but a hot bed of trouble forever, and I know that that is why empowerment zones were created. I know you know this. I know that anybody who understands what this whole program is all about understands it and supports it, and I recommend to anyone who doesn't know that to take a walk through any of them, either the urban ones or the rural ones. They are all the same. They look a little different but the bottom line is still the same. There are environmental concerns. In the cities you have dumps that that were there, walked away from years after year, and in the rural

areas you have dumps they don't even know they are there until they walk across and stumble across them as they try to build something.

So for me, I really came to talk about the promises that were made by the government. We should fulfill them. I make the same arguments when it comes to veterans. We have promised veterans certain things, and this House has voted to give those things because we feel strongly that if we made those promises, we need to live up to them. The same is true for every other American citizen. When the government makes a promise, we need to live up to it and we need to do that before we go on to the next step. That includes both Round IIIs, that includes the New Markets Initiative, that includes APIC, all of which are great programs. I support every one of them. I want to be there to vote for them, but they will not work, they will not work if we walk away from our commitments on Round II because anyone coming in the pipeline next is going to have to look at those Round II people who did all of the same things, followed all of the same rules, and were able to fulfill their commitments.

What would you do if you were a city manager or a town manager and you know you have this wonderful APIC, all these new initiatives we are talking about, if you look right next door and the community next door has an empowerment zone or an EC that wasn't funded, you are not going to step up to the plate too quickly.

We have only about 40 of these communities all across the country. They deserve to have the promises made to them fulfilled so we can get back to the business of fulfilling the hope that this Congress told them that we would fulfill, and that is why I came to say this today. Mr. Chairman, I appreciate your effort. You have been a fantastic leader. I have learned a lot in the short time that we have been working together on this issue, both on the issue on how to get things accomplished. You have done a great job for this year, and obviously we will be there forever to work on this issue to make sure that these commitments are fulfilled. Thank you.

[Mr. Capuano's statement may be found in appendix.]

Chairman LOBIONDO. Thank you, Mike. If there are any questions that the committee has of our two Members on the panel, this would be the time. Otherwise, I think that the indication was that both Members had markups. You are welcome to join us if you have the time on this side. No questions. I am sorry.

Ms. CHRISTIAN-CHRISTENSEN. It is a very brief question, but I completely agree with everything that you said, and I am a health person. I represent the health branches of the caucus, and we will never be able to address even the health issues unless we can address the economic and other issues in our community.

The nine new empowerment zones, if they come into being, I understand don't have any grant funding. They just have tax incentives. Does that meet what you think our communities need?

Mr. CAPUANO. As far as I am concerned, the answer is no. But for me, the most important thing, I was the mayor of my community for 9 years before I came here, and I would say that the most important thing, tell me what the rules are and stick by them so that I can make plans. You don't just build a building or set up a social network in matter of a year. It takes years to develop these

things, to get a hold of the property. You may not own most of the property. You may not have people who want to develop properties that you want to develop. It takes years to find them, years to get the money lined up, and if the rules change when you are halfway down the road, you have already found the developer to develop that dump and you walk away, it is the worst thing. So the answer is no, I don't think it does enough. But my argument, my strongest argument comes that whatever we say we are going to do, we need to do it for the length of the program.

Ms. BONO. I agree wholeheartedly with what he said. I think that, first of all, whatever the rules are from day one should be the rules. I think people can do a lot better if they know that what they are told they are going to get is what they get. It makes planning an awful lot easier, and that is what I heard in the field hearing, too, is that people, the uncertainty was probably the biggest deterrent of all.

Chairman LOBIONDO. We have a very strong feeling within the caucus that while we certainly don't object to the Round IIIs, we object to the Round IIIs being designated without the full commitment to the Round IIs, and that if Round II had the full commitment and funding scenario that the Round I's had, then we would open our arms to the new designation of Round III zones, welcome them in and help them through the process that we went through, but we find it very puzzling, many of us, that these Round IIIs are going to be designated when we have a very clear record of how the Round IIs have not been handled properly, and that is part of the reason of the hearing, to focus attention so that we can rectify this situation, and maybe through some of the testimony that we are going to have, the brakes will be put on those Round III designations until we can get our Round II straightened out.

Thank you both very much.

I would like to welcome—Mr. Phelps, Thank you for joining us.

Okay. I would like to welcome our second panel. Thank you for joining us. And first we will call on Maria Matthews, Deputy Administrator for Rural Development for the Office of Community Development for the United States Department of Agriculture. Thank you for joining us.

STATEMENT OF MARIA MATTHEWS, DEPUTY ADMINISTRATOR FOR RURAL DEVELOPMENT, OFFICE OF COMMUNITY DEVELOPMENT, UNITED STATES DEPARTMENT OF AGRICULTURE

Ms. MATTHEWS. And thank you very much, Mr. Chairman, and ranking member, for your invitation to the committee. I am very, very pleased to be here, and I am also very grateful to you and Congressman Capuano for your vision in beginning the EZ/EC congressional caucus forum so vitally needed by both the urban and the rural empowerment zones. And I would like to stress also our enterprise communities, who have certainly demonstrated that in rural America, if you give them a lot, they learn how to do something with it very quickly.

I do have a prepared statement, but I think it is best at this point that we have conversation, and I like to do that because I am originally from a Round I enterprise community in the Imperial

Valley, California. I was the executive director of that enterprise community and the full beneficiary of Round I, and saw, prior to coming USDA, what that opportunity has now done for that community in establishing new jobs and new industry and in giving the community hope.

And I think that that is definitely the foundation of the EZ/EC program and what it does, it has such a vision, and it gives a community hope in looking at itself holistically, and we required of these communities that had this hope and had this vision that the Federal Government would come in a different capacity as in past history and really provide them with a tool that gave them the reigns to solving their own problem while we gave them the resources with which to begin to implement those solutions.

It was a completely new way of doing business, and in a sense, the community has embraced it wholeheartedly, and we promised them that if they went through this wonderful bittersweet, agonizing, sometimes painful process, a true community development planning and put together a 10-year vision that we would assist them with the resources, at least just the seed resources, to begin making these solutions a reality. We did it in Round I, and the full anticipation of Round II applicants was that this would be the same promise.

We have heard that mentioned and could not agree with you more fully on that. What it does do, and I am in complete agreement, to communities, when you do not provide them the funding they had an expectation of receiving, it does stagnate the implementation of their strategic plans. They cannot put all of those projects that they worked so hard to leverage resources and create partnerships to complete. It does not allow them to move forward.

I think that if you look at the record in rural America for the 57 communities that we have designated, both as empowerment zones and enterprise communities, if you take a look at what they have done with the dollars that were given in Round I, for example, with their initial allocations of 40 million for first three zones and nearly three million for the 30 enterprise communities that were designated, they have leveraged, as of February of this year, about $1 billion in additional resources from other areas, both the Federal Government, State governments, local government, the private sector and nonprofit institutions. With that, they have created well over, close to 11,000 jobs, created 250 new businesses, put in 50 new water and waste lines, and on and on and on and trained people. They are on a leveraging ratio of about 8½ to 1 in terms of dollars.

When you look at what Round II has done, and I believe Congressman Capuano talked a little bit about what the Round IIs have done with leveraging, considering the fact that they have received a third of what they were promised, on the rural side, the Round IIs have drawn down approximately $3 million of what they have received at this point, and this is based on our benchmark management system that we have at USDA where we collect this data. Well, they have already leveraged close to $30 million and are on a leveraging ratio of 9½ to 1, and I think what that demonstrates is that if we keep our promise, our communities keep their promise.

They gain capacity. They learn how to use the resources that we give them in terms of technical assistance and the seed money that we give them, and they find partners in the public and the private sector to fulfill the intentions of their strategic plans. And I think that that is probably one of the most unique features of this particular initiative.

In the President's request for fiscal year 2001, it had indicated, or it had requested 15 million a year on the rural side for the next 8 years, and although that is not full funding, because that follows the line for rural communities at 2 million a year for the zones and 250,000 for the enterprise communities, which is not what would equal the 40 million for the zones in the year and the 3 million for the enterprise communities, that has now been superseded by the new agreement between the President and the Speaker and has caused, as I think Congresswoman Bono said, great uncertainty within the Round II communities as to what the future of their funding is.

I believe in recent information, it states 200 million, but the concern from the community is that it doesn't mention the enterprise communities in terms of the funding scheme and it doesn't really indicate how that funding is going to be distributed. And just this week for the U.S. Department of Agriculture's Office of Community Development has their enterprise committees and their empowerment zones in town for our annual training meeting, and in a session that we heard, this is a concern they have that they are uncertain about the Round II communities, they are uncertain about what that means for their funding future.

And I think that we must find a way to calm that uncertainty and to fulfill the promise that we made to them and to see them flourish and continue to create jobs and continue to increase their capacity, continue to add potable water systems in communities that don't have them, continue to train people for this new business environment as they have been doing so well and continue to create the partnerships that will fundamentally change the social and economic conditions within their communities.

I want to thank you very much for the opportunity to speak to you today. I believe that our communities are a shining example of what they can do when you provide them with some resources and allow them to have hope and innovation and look for their own solutions. Thank you.

Chairman LOBIONDO. Thank you very much, Ms. Matthews.

[Ms. Matthews' statement may be found in appendix.]

Chairman LOBIONDO. Now, we will hear from Gerard Velazquez, executive director of the Cumberland County Empowerment Zone located in Bridgeton, New Jersey. Jerry, thank you.

STATEMENT OF GERARD VELAZQUEZ, EXECUTIVE DIRECTOR, CUMBERLAND COUNTY EMPOWERMENT ZONE, BRIDGETON, NEW JERSEY

Mr. VELAZQUEZ. Thank you, Mr. Chairman, members of the committee, for allowing me to speak before you today.

When I first came on board at the empowerment zone, I was asked two questions: Number one, what empowerment zone meant to me, and number two, what I thought about the funding and the

fact that funding had been cut. When we talk about empowerment zone in Cumberland County, we talk about three main issues: Number one, education and training. We have employers who have gone out of business who have left the area and left us with employees who are in big need of a retraining and retooling, which is really consistent with a lot of the empowerment zones in the distressed neighborhoods that we have.

Number two, we talk about opportunity. We talk about opportunity to obtain the education, we talk about opportunity to obtain the training. We also talk about the opportunity to access the types of transportation, the types of initiatives that the urban areas and the distressed areas in the Round IIs in the rural areas as well, the residents, the businesses and the communities did not have.

And lastly, most importantly, we talked about a transformation, a revitalization, if you will, of not only the community, but also the vision. One of the biggest problems that we have in our community is the whole issue around vision, where the vision of our distressed area has gone as a result of the businesses fleeing the areas, what the morale of the people in our communities is, why we don't have homeownership in our distressed areas. And those were the keys to our empowerment zone designation. Those were the keys to our strategy, if you will. We don't consider the empowerment zone as a program. This is definitely not a program. It is a long-term strategy that not only allows us to change what is going on in our community, but it really allows us to change the foundation of the programs, of the systems that are in place now that allows us to set up the mechanisms for long-term sustainability, long after the empowerment zone has gone away.

The beauty of the empowerment zone is that we understand that it takes an entrepreneurial spirit to make the empowerment zone successful. We are not here to perpetuate the types of things that have been going on, good yes, bad no. We don't want to recreate the wheel, so to speak. We want to put rubber on the wheel. We want to make things happen. We want to enhance, we want to create and we want to move the process forward, so that when we are gone, hopefully 10-years from now when we get our full appropriation, that the sustainability of our neighborhoods is longstanding. If after 10 years we do not have a mechanism in place, or the mechanisms in place, the economic viability, then we have not done our job and we understand that fully, and that is a part of the process that we have gone through to put together our strategy.

I talk about the initiatives, I talk about the types of activities that we have already been successful with in our zone. Our zone only has 16,000 residents in our census track. We have already created 700 jobs, a year and a half. I have only been on board for four months. We have already leveraged $43 million. We have already trained 300 residents within our zone. We have already saved businesses $300,000 in tax incentives as a result of the zone. That is with our existing incentives. That doesn't include the new incentives that are coming in. So we have had a lot of success.

Part of our problem is that that success has dwindled as we have gone along in the process. The residents of our community are shying away from the empowerment zone because they were promised a lot of things, and obviously now, with one third of the money, we

are having a big problem achieving all of things that we had in our 2-year plan, and then obviously, our 10-year implementation strategy.

Businesses who were willing to come in, who were ready to come into our neighborhoods have now thought about it again and said, well, if you are not going to revitalize your downtown areas, if you are not going to create viable employees and viable communities, then maybe we want to take a second look about coming into the zone, and it is very critical that everyone understand that the strategy that we have implemented will create opportunity not only for the residents, for the businesses, but also the region as a whole, and it is a critical aspect of what we are trying to do here.

Lastly, I think that it is just very important to understand that when we talk about the funding that is necessary, it is really the funding will create a foundation for us. We have been asked to set up a strategy that builds a neighborhood, that revitalizes a community. We have been given enough money to build a few houses. That is not going to work. We need to be given the opportunities, we need to be given the resources. Again, $100 million over 10 years is not a whole lot of money in the scheme of things. We are talking about investment that is going to go, and just in Cumberland County, we are talking about leveraging our money at least 10 to one.

So for the $100 million that you are putting in there, you are going to get $10 for every dollar at least, new businesses coming in, and again, in the end, the biggest benefit to us will be that some money today, over the course of the next 10 years, has created a mechanism that will allow us to have Cumberland County be sustainable long into the future and that is the key to the empowerment zone.

And I am here to talk and ask you to please do whatever you can to give us the resources that we need to bring our communities back to life, to bring the hope back, to bring sustainability back, to bring the viability back that has been lost over the course of time.

We are not going to fix this today, we are not going to fix this tomorrow, but over the course of the next 10 years, we can definitely implement strategies, implement mechanisms, implement the types of programming that is necessary to help Cumberland County be brought back to life.

Thank you.

[Mr. Velazquez's statement may be found in appendix.]

Chairman LOBIONDO. Thank you, Jerry, very much for your testimony, and also, since I have had a chance to sort of up close and personal see your work, thank you for the commitment, the dedication you bring to making our zone work, and it is a tremendous asset to enabling us.

Next on the panel is Reverend James A. Dunkins, the vice chair of the Cumberland County Empowerment Zone, and I would like to just take a minute and say just a personal observation, that we can craft legislation and we can have the best of intentions, and this legislation is a very good example of identifying sections of our nation that can use additional help, a role that the Federal govern-

ment should play. We can put the right language in. We can provide tax incentives, we can provide funding.

What we are not able to do is to put in the legislation and mandate an energy and enthusiasm from the people who have to make it work. I have known Jim Dunkins for a lot of years. Our community is enriched beyond measurement by, Jim, what you have done, the dedication, the energy, the enthusiasm, the countless hours that you put in to working with the youth of the community, working with employment issues, working in areas that many other people would have given up on.

The ability for us to succeed with legislation like this is, in large measure, in direct proportion to the energy that people like yourself bring to the program. I want to thank you so very much for what you have done or what you are going to continue to do, for being here today, and I look forward to your testimony.

Reverend DUNKINS. Thank you, Mr. Chairman. I am almost afraid to speak after that eloquent introduction, but I do thank you for allowing me to speak today.

STATEMENT OF REVEREND JAMES A. DUNKINS, VICE CHAIRMAN, CUMBERLAND COUNTY EMPOWERMENT ZONE, BRIDGETON, NEW JERSEY

Reverend DUNKINS. My name is Reverend James A. Dunkins. I am the pastor of the Shiloh Baptist Church in Port Norris, New Jersey, which is in Cumberland County, which is a part of the empowerment zone. I have heard so many people speak already, so I don't have to use any of the terminology that you all are familiar with, designations and zones and all the other stuff. I want to talk about people.

I am an administrator in the Bridgeton school system. I had to leave school at 2:00 because a 16-year old student in our county was killed in a collision. He was riding with another student who is 24 years old. This student was in the alternative program that was shut down because funding was not available for him to immediately get into the slot. He was put out of school or placed out waiting for a slot to open up. So in the meantime, what did they do, they ride around, they sell drugs, they become involved in other areas that is going to give them some sort of notoriety and something to do.

As has been stated, our problem is not the problem of not knowing what to do. It is that we can never get a light at the end of the tunnel. We can never see beyond someone starting a program, designating some money and then saying that it is over and we don't worry about the community suffering, I am talking about the people suffering.

I would like to tell you about the residents of Cumberland County, the residents of Port Norris, a very desolate area where we are building more prisons than we are doing anything else because we don't have the social service programs, we don't have the long-term commitments that we can make any inroad into getting any kind of viable training.

I believe that the empowerment zone, no, I know the empowerment zone is the answer to giving us some stability. We have high crime. We have social diseases that are left worse by someone

promising us to give money and when we don't get the money, we have programs that leave dilapidated buildings, that leave eyesores, that leave people with no hope, that leave grandmothers in the community saying, Reverend, I am not getting involved anymore because nothing is going to be done. We drag people out to the polls. We tell them money is coming in. We tell them Mr. LoBiondo is going to do it, we tell them this person is going to do it, and then we still don't have any kind of viable commitment in our area.

In our program we probably could have saved that young man's life because I started a program through some of the money the empowerment zone has promised. We have even placed some of our community money into it. I started a program called the Job Readiness Program. We take juveniles off the street who may not ever make it in a mainstream social setting of a regular school system, may not make it in the programs that are already here, but they can make it if someone puts some time into them. We are teaching them skills such as anger management. We are teaching them skills how not to get fired at your job, how not to curse your job out, how to make sure you are going to become a productive member of society.

It is programs like these that need to have some long-term investments because what we are going for, we can make a stable program that can be self-sufficient if we can get the money and we can save people's lives.

Port Norris, as I said, is a small desolate community. You have seen the numbers, but you know what we do have, we have a community policing unit. We have young men standing on the corner. We have women who are having babies who are long-term third generation welfare recipients. We have all of the same indicators that you have. If you look at the composite ranking out of the 21 counties in New Jersey, we have some of the highest numbers in all of the negative areas, and what happens, we get an empowerment zone designated—I have served on countless boards, countless numbers of committees, and we do it tirelessly because we see some benefits to people.

I am telling you that if you really want to make a difference, if you really want to see some people's lives changed, forget all of these numbers, all this designation, all this Round II, Round III, and give us what we said we are going to get. And if you give it to us, we can make a difference in the community. We have stagnant industry, we have industries leaving us, and I am telling you, you are looking for chaos in the street, you are looking for people who have no hope, they are going to have no determination and no commitment to doing things the right way.

If I could tell you what the empowerment zone means in just closing up, I can tell you this. I can see that our young people can be turned around. I can see that we can have businesses. We have young entrepreneurs in our minority, in the minorities of our county who definitely, if they had some long-term commitment, can make businesses work. I hate to bring up something like institutional racism, but we don't have the loans. They don't get the cooperation from the banks. You know what they do? They put together money on their credit card, they start businesses, and then

we come along and say we can help you, and then the help is never forthcoming.

I am saying that the empowerment zone can help us see that light at the end of the tunnel if you will give us the funding we have. I know our program maybe will have a 5-year projection where we can be self-sufficient surviving on our own because we can take kids, at a prorated basis, out of the high schools. They get dropped out, maybe they won't graduate, but you know what they won't do, they won't be wearing an orange prison suit. They will be able to get a job. It may be small skilled labor, but they will start somewhere.

So I know that if you can help us in any way to get that money through, I can go along with Mr. Velazquez and we can do something in Cumberland County that is going to make a difference in people's lives.

Chairman LOBIONDO. Well, Jim, thank you.

[Reverend Dunkins' statement may be found in appendix.]

Chairman LOBIONDO. One of the things that we hope to accomplish through this hearing and hearings like this are to be able to put the human face on what happens here inside the Beltway, that this drastically affects people's lives. We have the ability to impact in a very positive way if we do the right thing, and your testimony very much helped to highlight that. We will go into the questions now and I would like to start with Ms. Matthews.

And in your written testimony, you mentioned that the New Markets Community Renewal agreement calls for 100 million in FY 2001 and 100 million in FY 2002. I am a little taken back. It was my understanding in the agreement that we entered into that we would receive 200 million for Round IIs in FY 2001. Could you please help clarify this discrepancy?

Ms. MATTHEWS. I think that a lot of those details are still being worked out, but I can tell you that still having those details in the working out phase is what is creating the uncertainty with the communities. I wish I could give you more information to clarify that, but I don't have any more to give you at this time.

Chairman LOBIONDO. Because from my standpoint, there was no doubt in my mind of what the memorandum called for, and it clearly called for 200 million, and I don't recall seeing anywhere a spread over a 2-year period. So that is a great cause for concern, and as I just want to very stridently state, that that scenario is totally unacceptable because of all the reasons said before.

Reverend Dunkins, I wanted to follow up and ask you, you talked in some terms of problems with the youth, and while much of the focus of the legislation has to deal with job creation and what would be considered help in the adult community, I think you touched on an area that is important because it speaks directly to our future. Can you give us some more specific examples of how you think the youth in our community, and I am sure it would be the same in other communities, would benefit from programs and give us any specifics that you might be able to come up with about examples that you think would be there if we are able to deliver on this promise.

Reverend DUNKINS. Yes. I can start with something very concrete. In the Port Norris area, one of the barriers is a water waste

treatment system. That may not seem like it is connected directly to youth, but it is, because one of the things is we don't have a car wash, we don't have a laundromat. We don't have certain things that we can give these young people, unskilled labor. So what I am saying, a lot of times young people get involved in the juvenile justice system and become habitual offenders, but also the ones that don't even become offenders don't also become contributing adults.

So one of the things that we look at that the zone can do is give us the money we need to take away some of these barriers. Transportation is a barrier. When I talked about second and third generation welfare recipients, one of the reasons is the training is in Vineland and Bridgeton, but Cumberland County doesn't have a transportation system or bus system that runs from Port Norris. So they can't even get there. So a lot of times there is no baby-sitting.

So while we are waiting on all of this help to become as adults, I am saying that a lot of times they start out as teenage mothers, they start out as juveniles. And then we get an adult population that have no school skills and have no training.

So what I see is a direct impact, not only on the youth because if the adults can get a job and become examples—one of the things I tell my teachers when we are training, and I am going to be very brief, is when they tell me when a kid does something that is catastrophic, something that is crazy, they say they should know better. My answer always to them is who taught them better, and if we don't get some adults that know better, that there is hope, that there is jobs, who is going to teach the young people better?

Chairman LOBIONDO. Great answer.

Mr. Velazquez, you stated that we have created over 700 new jobs with our zone, and could you give me your take on what the additional hiring tax credit would mean to this number, and provide some specific examples if you can think of them?

Mr. VELAZQUEZ. Sure. I think obviously, when we talk about the tax incentives, the most important thing the tax incentives bring to the table is an opportunity for our residents to be hired in situations where they typically would not have been. The incentives allow us to invest in human capital. It allows a business to take a chance on hiring someone from the zone that they may not have hired before. It allows us to get involved with programs such as Reverend Dunkins' and the local training where we are going to train people, and those incentives are the linchpin that allow the businesses, or that provide the businesses kind of the mechanism to take a chance that they would not have.

One of the things that I would like to point out about the 700 jobs we have created, we are talking about small businesses, we are talking about businesses that are local. Even for the businesses that are coming in, we have a business that is coming in from Belgium, we have a business that is coming in from another county, we are talking about hiring locally. We are talking about people who have lived in the area. We are talking about the leverage of human capital within our zones. The benefit, and it is appropriate that we hear today of the tax incentives, is that the major thrust and the major benefactors of the tax incentives are the small businesses. The largest sole business that we have created through the empowerment zone only employs eighty people.

So we are talking about many, many businesses that compose the 700 that are hired, and again, those tax incentives that we now have, the additional tax incentives that are proposed are going to allow businesses to take a chance where they didn't before, to hire someone that is not quite as skilled as they would have liked. However, with the knowledge that there is empowerment zone backing, with the knowledge that there are programs in place, they are willing to take that chance and willing to hire people that typically would not have been hired.

Chairman LOBIONDO. Thank you. I have some more questions, but I would like to turn to Congresswoman Christian-Christensen.

Ms. CHRISTIAN-CHRISTENSEN. Thank you, Mr. Chairman. I want to join the panelists and thank you for calling this hearing and for the new caucus that you have started because it has been a very enlightening hearing. We don't have an empowerment zone, as I said in my opening remarks, but being on the outside, we kind of thought that things were moving along a lot better than they are, and we really have heard quite a bit about our communities that are so much in need of hope, communities that are so hard to convince to hope one more time, and to have those hopes dashed is really a travesty in those communities.

It makes most of the questions that I did have not really very relevant at this point, but let me ask Reverend Dunkins, we have several pieces of legislation in the Congress that talk about applying Federal funding to faith-based organizations, and it is a little bit of a controversy over the people that feel that we should and others that feel that we shouldn't.

Can you talk about the role that faith-based organizations, particularly, have played in this empowerment zone?

Reverend DUNKINS. Yes. I can tell you that in our state, when faith-based organizations were started, we were one of the only organizations, churches. We do have a development corporation at our church. I convinced my traditional old congregants that we now need to move into accepting grants. You will find that my people are well-informed from the oldest to the youngest on what a 501(C)(3) is. They understand how to put together a corporation, but this is what they didn't understand. They now see how we have made the segue of doing old benevolent fund and doing WIC and knowing the people in the community, they understand now how we can take our expertise, which was maybe unskilled and thought to be unskilled, and really make an impact by partnering with other people.

So the faith-based look or the faith-based advantage which people should look at is we can be effective, whereas regular programs cannot be effective if they look at the bureaucracy attached. I can go in to Annie Lane's house and say, you have a young man on drugs and we now have a program that is a halfway house at our church. Because we have a faith-based organization, we can get to that young man quicker than the police can. So the faith-based piece you are talking about is very important with the empowerment zones because most of the churches and most of the activities that are in the community lead some way to the religious community or lead to the institution of the church.

So I think that the social impact of the church of faith-based can make the quality of the programs better and that is what we have been able to do. We are partnering with welfare, we are partnering with every agency in our area because they are glad to get the help that we can provide as an organized community of faith.

Ms. CHRISTIAN-CHRISTENSEN. I don't know if anyone else wanted to comment.

Ms. MATTHEWS. Well, I think that I would like to comment on that because we see faith-based organizations as a good community partner in rural America. Oftentimes, a faith-based institution in some of our rural communities will be the centerpiece of that neighborhood or that community and will be the one place where many community members feel safe to come and talk about the issues, form their strategic plan and what have you.

I think that the empowerment zone/enterprise community initiative does exactly that. It opens the spectrum of partnership to every organization that is a key member of truly beginning to solve the problems of endemic poverty in the community, and a faith-based organization in many of our poorest communities plays the key role of being one of the central places, safety of learning, of child care, and so you cannot exclude any partner when you are looking at a holistic view to community economic development.

Ms. CHRISTIAN-CHRISTENSEN. Thank you, Mr. Chairman. I don't have any other questions at this time.

Chairman LOBIONDO. Mr. Phelps, do you have any questions?

Mr. PHELPS. I don't have any questions other than just say I have an empowerment zone in deep southern Illinois in my district, which shares many of the demographics that all of you have experienced in your territories, so I fully support and hope that we can advance from here. And I guess what I would ask maybe ourselves, what do we need to do beyond pushing for funding? Is there a vacuum in what is going on right now that is not getting clearly indicated in the process?

Mr. VELAZQUEZ. I think one of the keys to the process is have everyone understand or clearly define what full funding is. Are we talking about $10 million for this year? Are we talking about multiyear funding? Are we talking about implementing our strategy over the long term? I think that we need to come to grips with the terminology that we are using so that everyone understands when we say "full funding," when we say "200 million," does it mean 100 million over 2 years? Does it mean 200 hundred million this year? I think that is critical as we have, as empowerment zone directors have gotten together and talked about the issues and concerns that we have. One of our biggest concerns is just the clarity and the definitions of what those meanings and what the terminology is because, again, one person's understanding of full funding may be totally different.

Our understanding as empowerment zone directors is full funding is $10 million a year over the next nine years. That is full funding for us. So if we can make sure that the definitions are clear, I think that would help in pushing the process forward.

Mr. PHELPS. As members that participate in the process, one of the things, not necessarily speaking for everyone, but one of the things that concerns me is when we talk about expanding the pro-

gram that is in the middle of yet being commitment to funding, do you think this helps our chances of solidifying our funding that hasn't been forthcoming, or are we going to sort of distribute what is available among all the new as well as old commitments? What do you think our chances are, better or worse, from expanding sort of Round III so to speak? How would you feel?

Sometimes this process works where the more you get involved, the better everybody is in the way of terms of dollars. Sometimes it can erode what was originally intended but yet never quite met.

So that is my concern as a member here, what do I push on, get on board for the whole program as the full scope of things or do I just push for what McKinley intended was originally and not yet met?

Mr. VELAZQUEZ. Again, from the point of view of a Round II, one of the things that we as a board had to kind of deal with was the whole issue around, okay, we had a $20 million plan that is now a $6.7 million plan, do we fund all the programs that were proposed at a lower level and have a lot of programs that are halfway successful or partially successful, or do we fund enough programs or the programs that we have that are going to make a difference and are really going to have sustainability, and from our point of view, we decided that we were going to fund programs fully so that they would have the full impact on a community.

And again if it was only five programs that were fully effective, that had long-term viability that 3 years from now, if the empowerment zone went away, still worked, then that is what we decided we were going to do.

So again, speaking from a Round II, as a Round II director, obviously in our opinion we would like full funding for Round II. We would like to make the difference, and I think the difference that would be made and really realized would allow possibly for Round III in the future.

Reverend DUNKINS. I want to speak from my perspective from what have you just said, because to me, I think my answer to you would be yes, we have got to keep pushing it no matter what is coming down. I believe the empowerment zone, in its weakest element, is still whatever program you keep coming up with, maybe a light bulb will come on in someone's head sooner or later, and say we keep coming up with the same type programs that we have already said will make a difference but we are not funding.

So as long as you keep that in the forefront, I think somebody along the way is going to see that the empowerment zone, in its weakest element, is going to be successful, because if I can leave one person with a business that wouldn't have had a business, if I can leave one person with a job that didn't have a job, that is going to be better than all the promises in the world.

So I guess what I see in this whole malaise of things is that we continue, no matter what other program I hear about, they all seem to be similar, and we are talking about not fully funding what we have already promised to fund. So somewhere along the line somebody's got to say, hey, we have got something good, let us put some money in it.

Mr. PHELPS. Just real quickly, in terms of faith-based concerns, I very much applaud you for your concern and your input and ac-

tivity because I am one that believes that while we need resources in these poor communities, that for those people that believe that there is going to be a value system, all of a sudden raise up, because you have got resources pouring in, even though a good job is a good start for teaching the family values, I hope that your leadership in the community from the standpoint of faith-based is really the key to try to get dysfunctional families, teaching their young people that violence and destruction of property and not staying in school, whatever else we promote that is decent, is going to have to come from the community. We don't have the answers here for the few dollars, but we can sure help those families that are struggling. Thank you.

Ms. MATTHEWS. If I may, I think I would like to address it from the standpoint of something Mr. Velazquez said earlier, that in the scheme of things, when you look at an urban or a rural designation, you look at the actual amounts. $40 million over the course of 10 years is not a lot of money when you are looking at a 10-year vision for the change of an entire social and economic structure and community that begins with hope. I think that the $40 million that we promised those zones and the $3 million we promised those enterprise communities are, again, just a piece of the puzzle that they have put together with partnerships, and leveraging has demonstrated already, when it comes to $9 million, there is something that we, as rural communities, need to look at in terms of what is being proposed. One is that it is only tax incentives.

We have capacity issues in rural America that may not put us in a position to be able to use solely tax incentives. We need to build infrastructure systems that will allow rural communities to diversify their economies and grow new markets and what have you. So that alone may be something that would require a discussion from rural communities and see how much excitement there is about the prospect of a zone with only those characteristics, and also talking to the question of a little equity.

I think in current conversations the distribution of the nine new zones is seven urban and two rural. Well, two rural don't seem like an awful lot when we have more than 13,000 rural places and 1,400 rural counties, and I think also that we have demonstrated in rural America that we know how to gain capacity and make small dollars go very far. I think the enterprise communities are a good example of that so that would be my comments on the question.

Chairman LOBIONDO. Let me reemphasize that Congressman Capuano and myself, and I believe I speak for most of the members of the caucus, feel very strongly about the Round IIIs with any designation and possible funding before Round IIs are, fully enabled by virtue of the promises that were made. We think that, since we are dealing with one year at a time right now, to expand to Round IIIs without the firm commitment for Round IIs leads to a path for potential trouble, if not worse, than the way of disaster for programs—any of these zones that we have that are up and running, putting plans together, if on any single year the funding drops or is—some reason isn't there, we have got a catastrophe on our hands. I think that unless we have that commitment on the Round IIs, the Round IIIs only put more pressure that way.

Let me just take a moment to say that we find that with any successful program, there are partnerships that are developed. I think we have a clear indication today, with the partnerships between the Federal government, our local communities, different agencies within the government, but I also want to publicly thank Senator Bob Torricelli. He has been a great partner for us in New Jersey. He was very instrumental in the designation of our zone. He continues to remain very instrumental in our help in putting together what we need to additionally do. We have had personal discussions and meetings. We have his commitment of pushing on the Senate side, because there are a lot of questions of we are working on the House side, what happens on the Senate side. Senator Torricelli has assured me of his continued strong backing for the program, and I want to publicly thank him for that.

Another question for Ms. Matthews, but any of our panelists, as we are going through this, we are talking specifically about doing something with the tax credits and specifically for the funding. But as we are examining what we have been able to do with empowerment zones in the rural and the urban and the communities and all the aspects of this, do you have any suggestions of areas that can or should be tweaked with wording and/or authorization, other than the tax credits or the funding, that would help in allowing the zones to be more productive and just be better off?

Ms. MATTHEWS. I think I can only tell you what some of the rural communities are telling me as I go out and visit them in the community, and I think that some rural communities that do not maybe fit within the current eligibility criteria in terms of poverty and what have you would like an exploration of other criteria that may bring more rural areas into eligibility for this community development planning process, because I think, as Mr. Velazquez said, and as you said, actually, that maybe consider that some of these metropolitan areas are considered very wealthy, or they have a lot of money, or a high per capita income or what have you, but there are certainly pockets within these communities as there are in rural America, especially when you take the eligibility from a census track perspective, that sometimes—particularly in the West, for example, you will take a very, very large area into a census track that can skew numbers—there are other measurements that indicate need. I think we could have a discussion on how we might be able to better serve some of those areas.

Certainly for Round II specifically, the tax incentives and full funding are just the two things that are going to be continuously on the mind of those communities so that they continue the implementation of the plans.

Chairman LOBIONDO. Mr. Velazquez, do you find that in the day-to-day operation of our zone, that there are any particularly onerous rules and regulations that you are compelled to work under that are hampering your ability to have full maximization in the zone of what our potential is?

Mr. VELAZQUEZ. I think functionally the zones are working pretty well actually. The process that has been set up seems to be working well, allows us some flexibility. It also provides a monitoring mechanism so that everyone is aware of what is happening. Obvi-

ously, there are some areas that we can tweak as far as how the funds are utilized.

Part of our other problem, back to the definition issue, is the money originally was coming through the social service block grant, which allowed for more flexibility in the types of programs that we were going to implement.

The money came through HUD, which then had a whole new definition of how the money could be used, economic opportunity versus the more general definition that was used in the CFR.

So, again, that is the result of the type of money that came out of the Round II appropriation, but I think it is important and critical—again, I hate to go back to this, but for us it is important that we know up front how our money can be used so that when we are implementing our strategies, it is clear and the opportunities are clear for us, because what it has meant for us as a Round II, and the changing definition, means we have to go back and revisit all of our implementation plans and then tweak them, and maybe in some cases, some programs, such as the local programming, the human service programming, has fallen by the wayside because we have not been able to put it into that category of economic development.

Again, that is a critical issue for us. But as far as process goes, it has actually been a pretty easy process to work with.

Chairman LOBIONDO. Well, I want to thank our panelists for being here today. This was, I think, very helpful for us in our quest for full funding for our Round IIs, Empowerment Zones in order to help the many people that we have the potential to reach.

Your testimony was extremely valuable. I appreciate your taking the time to spend with us here. With that, the subcommittee is adjourned.

[Whereupon, at 3:55 p.m., the Subcommittee was adjourned.]

SUBCOMMITTEE ON RURAL ENTERPRISES, BUSINESS OPPORTUNITIES & SPECIAL SMALL BUSINESS PROBLEMS
Hearing on "The Future of Round II Empowerment Zones"
June 7, 2000

CHAIRMAN FRANK LOBIONDO – STATEMENT

Good afternoon ladies and gentlemen. Today, the Subcommittee on Rural Enterprises, Business Opportunities and Special Small Business Problems is convening to discuss the future of Round II Empowerment Zones. As many of you know, the Empowerment Zones/Enterprise Communities program was enacted in 1993. This 10-year program targets federal grants to economically distressed urban and rural communities for social services and community redevelopment, and provides tax and regulatory relief. In what is now referred to as Round I of the program, 104 Empowerment Zones (EZs) and Enterprise Communities (ECs) were created. As part of this program, each urban and each rural EZ receives $100 million and $40 million, respectively, in flexible Social Service Block Grant (SSBG) funds. In addition qualifying EZ employers are entitled to a 20% credit on the first $15,000 of wages paid to certain qualified zone employees.

The Taxpayer Relief Act of 1997 authorized a second round of 20 EZ designations known as Round II Empowerment Zones. In the Round II competition, 279 communities and groups of adjacent communities– 119 in urban areas and 160 in rural areas -- competed for the 15 urban and 5 rural zone

designations. In my Congressional District, Cumberland County was one of the 15 urban areas to receive this designation on January 13, 1999.

Unfortunately, employers in Round II Empowerment Zones are not currently able to benefit from the hiring tax credit afforded to employers located in Round I EZs. Additionally, the block grant funding that is available for Round I EZs has not been made fully available for Round II zones. Cumberland County should be receiving $10 million a year for the next 10 years. To date they have received approximately $6.7 million, only 1/3 of the amount of funding promised at the federal level over two years. Business people, community groups and residents of Round II Empowerment Zones have no choice but to sit through Congress' annual appropriations battles before they are able to construct with a level of certainty, economic plans that will help revitalize their communities. Those of us representing one of these distressed communities in Congress understand the vital need to have a full funding mechanism in place for Round II, as it is in place for Round I designations.

This is the second hearing that the Small Business Committee has held on this issue. The first was held on April 26, 2000 in Mecca, CA and was chaired by one of our witnesses, Representative Mary Bono. At that hearing, members of the community discussed their concerns with the uncertainty that Round II Zones face

and how these uncertainties affect their business plans. Surely, these uncertainties are not what Congress intended to subject these communities to when we decided to create new Empowerment Zones. Indeed, with the newly reached agreement regarding the Talent/Watts Community Renewal legislation, Congress runs the risk of creating a fractured structure of community development zones and forgetting about the promises made to the communities that were designated Round II Empowerment Zones in 1999.

Over the last several years, our nation has experienced a historic period of wealth creation. Our challenge now is to expand that prosperity to lower income families in rural and urban communities. Through empowerment zone opportunities, we invite low-income working Americans to be participants in our strong American economy and to determine how resources will be used within their neighborhoods.

Today we will hear from two distinguished panels of witnesses to discuss the future of Round II Empowerment Zones. On the first panel we have a Member of our full Committee Representative Mary Bono. Additionally, I would like to welcome to the Small Business Committee, Representative Michael Capuano. Mike and I decided several months ago to form the EZ/EC Congressional Bipartisan Caucus to highlight the fact that the 20 Round II EZ/ECs designated by the

President in 1999 still have not received the full funding allotment they were promised.

Our second panel consists of: Maria Matthews, Deputy Administrator for Rural Development from the United States Department of Agriculture; Gerard Velazquez, Executive Director of the Cumberland County Empowerment Zone; and Reverend James A. Dunkins, Vice-Chairman of the Cumberland County Empowerment Zone.

I look forward to the enlightening testimony of our witnesses and I turn to the Ranking Member for any opening statement she would like to make.

Congresswoman Mary Bono
The Rural Enterprise, Business Opportunities, and Special Small Business Problems Subcommittee Hearing
Washington, DC
June 7, 2000
Round II Empowerment Zones

Good Morning. I would like to thank Chairman LoBiondo and Ranking Member Christian-Christensen for holding this hearing on Round II Empowerment Zones and H.R. 4463, the Empowerment Zone Enhancement Act of 2000.

As we continue to study the very exciting agreement recently reached between the Speaker of the House and the President regarding the American Community Renewal Act and the New Markets initiatives, it has become even more clear that we must finish the work that was begun in the Round II Empowerment Zones.

In 1997, 20 Empowerment Zones were authorized as part of the tax reconciliation package in the Balanced Budget Act. This second round of Empowerment Zones, 15 urban and 5 rural, were designated in January 1999. Unlike the first round, the Round II Empowerment Zones were not authorized to benefit from the employer wage tax credit, also referred to as the hiring tax credit, nor were there funds available to implement the strategic plans upon which the designations were made.

A couple of months ago, the Small Business Full Committee held a hearing in the Desert Communities Empowerment Zone, which I have the pleasure of representing. While this hearing discussed some of the positive initiatives that have been begun in the eastern Coachella Valley, it also brought to light the obvious need, especially in rural Empowerment Zones, for consistent funding as well as the employer wage tax credit.

In order to qualify for the Empowerment Zone designation, the requesting communities were required to submit strategic plans which outlined the priorities of the Empowerment Zone and the way in which they planned on achieving those goals. Because the funding levels for the Round II Empowerment Zones are based on a yearly appropriation, it has been difficult, especially in rural areas, to commit to infrastructure projects and to offer concrete incentives to businesses interested in locating in the Empowerment Zone.

In addition to the uncertain funding issue, the Round II Empowerment

Zones were also left without the hiring tax credit, or wage tax credit. This credit was given to the first round Empowerment Zones, and, according to a report from the General Accounting Office, have been one of the more utilized of the tax incentives in attracting businesses to disadvantaged areas.

I am concerned that Congress has an unfulfilled obligation to complete the process begun for the Round II Empowerment Zones. That is why I have introduced H.R. 4463, a bill to provide Title XX funding to the Round II Empowerment Zones and extend the hiring tax credit. I, along with my colleagues on the Round II Empowerment Zone Caucus, am committed to doing all that I can to ensure that we pass legislation to provide full funding along with the hiring tax credit for the second round Empowerment Zones and complete the commitment that we have made to our distressed communities.

Thank you again for allowing me to testify on an issue that means very much to my district and to all of the Round II Empowerment Zones that are trying to better their communities.

MICHAEL E. CAPUANO
8TH DISTRICT, MASSACHUSETTS
COMMITTEE ON BANKING AND FINANCIAL SERVICES
SUBCOMMITTEE
CAPITAL MARKETS, SECURITIES, AND GOVERNMENT SPONSORED ENTERPRISES
HOUSING AND COMMUNITY OPPORTUNITY
COMMITTEE ON SCIENCE
SUBCOMMITTEE
TECHNOLOGY
SPACE AND AERONAUTICS

Congress of the United States
House of Representatives
Washington, DC 20515–2108

WASHINGTON OFFICE
1232 LONGWORTH BUILDING
WASHINGTON, DC 20515–2108
(202) 225-5111
FAX: (202) 225-9322
DISTRICT OFFICES
110 FIRST STREET
CAMBRIDGE, MA 02141
(617) 621-8208
FAX: (617) 621-8622
ROXBURY COMMUNITY COLLEGE
ROOM 110
www.house.gov/capuano

STATEMENT OF CONGRESSMAN MICHAEL E. CAPUANO BEFORE THE SUBCOMMITTEE ON RURAL ENTERPRISES, BUSINESS OPPORTUNITIES AND SPECIAL SMALL BUSINESS PROBLEMS

Chairman LoBiondo, Ranking Member Christensen, members of the Subcommittee, it's a pleasure to be here this afternoon to testify on behalf of the EZ/EC Congressional Caucus in support of continued funding for the Round II Empowerment Zones and Enterprise Communities.

As many of you know, the first round of 11 Empowerment Zones and 94 Enterprise Communities were authorized by Congress in 1993. In addition to several tax incentives, each urban EZ received $100 million and each rural EC received $40 million in federal funding over ten years to implement their comprehensive economic development plans. This funding has helped the Round I EZ/ECs create thousands of new jobs and new business opportunities across the nation.

Because of the success of the first round EZ/ECs, Congress authorized a second round of 20 EZs and 20 ECs in 1997. Communities from across the nation applied for these designations, and the final selections were made in January of last year. Because of the hard work of community leaders and local officials, the City of Boston was fortunate enough to secure one of the Round II EZ designations.

Unfortunately, the federal funding that accompanied the Round I designations was not mandated by Congress for the Round II communities. In each of the last two fiscal years, a small portion of the funds that were promised was provided through the appropriations process. Of the $20 million that each urban EZ was supposed to receive in the first two years of the program, they have received only $6.6 million -- $14.4 million less than anticipated.

Even without the federal funds, the Boston Empowerment Zone has already made significant strides in bringing economic opportunity to several of the City's distressed neighborhoods. One example of the innovative work being done in the Zone is the School to Career (STC) program. Working with the business community, the public school system, and non-profit groups this initiative identifies businesses in the EZ that are willing to serve as mentors to students from the three high schools in the Zone.

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Participants are offered skills training such as resume writing and interview strategies in their schools, while job counseling services provide information on new industries and new career opportunities. Boston's preeminence in the health care and high tech industries offers students cutting edge careers in some of the world's leaders in these fields.

The STC program has already served more than 300 students living in the Zone, and they hope to double that number in the coming years. The staff is also adding to the list of 60 business participants, and the City received a grant from the Department of Labor to continue these efforts over the next several years.

The federal government's ongoing commitment to the Round II EZ/ECs is essential for programs like School-to-Career to continue serving these students. The Boston EZ has leveraged their promised federal funding with more than $400 million in new private sector investment. These funds could be lost if the federal government walks away from their promise to these communities. Thousands of residents in these EZs and ECs would lose out on new jobs and new economic opportunity.

Congressman LoBiondo and I have formed the bipartisan EZ/EC Congressional Caucus to advocate for full funding for the Round II EZ/ECs. Because of the hard work of members on both sides of the aisle, we were able to secure a commitment from President Clinton and Speaker Hastert to include $200 million in funding for the Round II communities in the New Markets/Community Renewal tax package. This will give these communities one full year of funding -- $10 million for each urban EZ in FY 2001.

Our work is not over though. We will continue to work to secure full, mandatory funding for the Round II EZ/ECs in the coming years. We are also concerned that the recent agreement includes the possibility of a third round of Empowerment Zones. We need to finish the work on the Round II Zones before we consider another round of designations. The government made a promise to these communities. We must fulfill that promise and make the Round II EZ/ECs whole.

Thank you for the opportunity to testify here today. I would be happy to answer any questions you may have.

STATEMENT BY MARIA MATTHEWS
DEPUTY ADMINISTRATOR FOR COMMUNITY DEVELOPMENT
RURAL DEVELOPMENT
UNITED STATES DEPARTMENT OF AGRICULTURE
House Committee on Small Business
Subcommittee on Rural Enterprises, Business Opportunities and Special Small Business
June 7, 2000

Good Morning, Mr. Chairman and Members of the Committee. Thank you for inviting me to speak to you today. I appreciate the opportunity to testify, because it involves a program I believe in deeply.

The Empowerment Zones and Enterprise Communities (EZ/EC) program was enacted into law as part of the Omnibus Budget Reconciliation Act of 1993. That act authorized nine Empowerment Zones (EZ) and 95 Enterprise Communities (EC) for Round I of the program. Of these, three zones and 30 communities were to be established in rural areas. The Taxpayer Relief Act of 1997 authorized an additional 20 Round II Empowerment Zones to be designated by January 1, 1999; 15 of these were for urban areas and five rural areas. The Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (Public Law 105-277) provided grant funding for these 20 Round II rural and urban EZs and authorized 20 additional rural ECs.

The EZ/EC legislation built upon earlier efforts under Federal and State legislation to establish enterprise zones by including tax credits and other supply-side incentives for business investment. Unlike previous initiatives, EZ/EC added major new features that make it a very different program. Designated EZs and ECs receive block grants that can be used for a wide range of purposes. Although an existing block grant program—the Social Services Block Grant (SSBG) program authorized by Title XX of the Social Security Act— has been employed to fund Round I, the eligible uses of these funds have been broadened to include virtually anything that might fall into a comprehensive community and economic development program. The funds are to remain available throughout the 10-year period of the EZ/EC designations.

The principal difference between Empowerment Zones and Enterprise Communities is in the level and type of financial resources provided to them. Round I Empowerment Zones receive much larger grants—$100 million for urban zones, $40 million for rural zones—than Enterprise Communities, which receive $2.95 million each. Businesses located in EZs also receive tax credits and other tax incentives not available within ECs. By creating this two-tiered approach, Congress in effect established a test to determine the importance of these financial incentives for stimulating development in high-poverty communities.

Round II Empowerment Zones and Enterprise Communities have not yet received full funding, but instead have so far been funded through the annual appropriation process via their respective Federal servicing agencies. Rural Round II Empowerment Zones have received $2 million apiece over each of the past two fiscal years, while Round II Enterprise Communities have received $250,000 each over the same period of time. This is a significant departure from the original concept of establishing a long-term financial base providing a foundation to complete

strategic development plans. This is due to budget constraints, but it places the Round II communities at a significant disadvantage.

The President's budget for fiscal year 2001 proposes legislation to provide $15 million in grants, each year through Fiscal year 2008, for the Round II EZ/EC designees. It proposes $1.4 billion in mandatory grant funding for the remaining nine years for the 15 Round II Urban Zones and $120 million in mandatory grant funding for the remaining eight years for the five Rural Round II Zones and 20 Enterprise Communities.

The program is unique in that communities were defined not on the basis of extant political subdivision boundaries but on the basis of census tracts. Tracts were eligible according to a somewhat complicated combination of poverty rates, which ensured that almost all areas had a minimum poverty rate of 20 percent and most had rates of 25 or 35 percent. The poverty rate requirements were most stringent for Empowerment Zones. Not surprisingly, although designated rural EZ/ECs are located in 33 States, they are concentrated in Appalachia, areas of historically high Black population along the east coast and across the South, and in Hispanic communities in the Southwest.

The other major concentrations of poverty -- on Indian reservations -- were statutorily not included by the Round I enabling legislation, but became well represented during competition for Round II designations. Evidence of this participation can be found in Desert Communities Empowerment Zone where 4 tribes are partnering in the Zone.

In important ways, the rural EZ/EC program is more of a community development program than an economic development program. Applications for EZ/EC designations were competitive and had to be supported by comprehensive, long-term strategic plans for development. The planning process itself had to include broad public participation, and not merely the product of a planning office or consulting firm. In effect, the application procedure constituted a significant process of community development, and communities that took the process seriously found themselves mobilized for action and in possession of an implementable plan.

Recognizing the value of this planning process, and the desirability of sustaining the progress made by the 227 Round I applicants, the FY 2001 President's Budget has proposed $7 million for Partnership Technical Assistance Grants, which provide technical assistance for under-served communities to create strategic plans, better use and coordinate USDA's rural development grant and loan programs and achieve sustained economic viability, job creation, and improve quality of life. These grants will be run through the Rural Business Opportunity Grant Program. Moreover, USDA designated many unsuccessful applicants as Champion Communities, and provided them with special financial and technical assistance to implement parts of their strategic plans. USDA, in particular, used the Champion Communities as the basis for significant outreach to spur development in these hard-to-reach communities, and through FY 1999, has invested some $290 million in its business and infrastructure development programs in these communities.

A New Record of Success

Success in the Rural Empowerment Zones and Enterprise Communities is not a matter of faith based on anecdotal evidence! Our Round I EZs and ECs have delivered on their promises to partner with governmental and non-governmental entities, provide increased economic opportunity, leverage large amounts of resources with only a little seed money, and encourage individuals to become fully involved with solving their own community's problems.

By January 28, 2000, our 33 original communities have compiled an impressive program record of more than $862 million in projects implemented in their communities. When the newly designated Round II Zones and Communities are factored in, the record shows almost $981 million, becoming even more impressive. We believe that number is on the conservative side. Only 12% of that amount came from the EZ/EC SSBG grant. Federal agencies have come to the table with $441 million of that total. Clearly, there is room for additional Federal participation in the implementation of rural communities' strategic plans. Communities are using their designations to produce more jobs, more local programs, more opportunities and other community development-based outputs than at any other time in the past.

But more than the raw numbers have changed in these communities. More importantly, in fact, is that people's lives have changed. People are pulling themselves up from poverty and becoming entrepreneurial. New businesses that formerly would not have considered rural America as a good place to establish operations have now begun to build and thrive in our rural communities. Round II communities are well organized and ready to roll with their strategic plans. Many have already attracted multimillion-dollar investments without yet drawing down any of their grant money. New ideas are being born every day and those ideas are changing how people look at themselves, how people look at other people, and how people look at the government. More than ever before, people and organizations are partnering and participating together. There is more and better communication between groups. This is truly a unique and working Federal program.

Round II Empowerment Zones and Enterprise Communities

Secretary Glickman designated Round II Rural Empowerment Zones and Enterprise Communities on December 24, 1998. These designations were the culmination of an unprecedented community-based, grass-roots effort by the stakeholders and residents in each zone to establish a process and mechanism to effect long-term positive change and improve the quality of life of all residents.

Rural Empowerment Zones and Enterprise Communities designated in 1998 for Round II have not received the anticipated full funding for the 10-year designation period. Full funding is needed to honor the commitment to these communities.

In FY 1999 and FY 2000 the Round II Rural EZ/ECs were provided with $30 million in discretionary fund ($15 million each year). Currently, funding for the remaining years of the 10-year

designation period has not been secured. In order to realize the original concept of establishing a long-term financial base for these communities, we urge the enactment of the President's Budget request for FY 2001 to provide $15 million in grants, each year through FY 2008, for the Round II Rural EZ/EC designees.

On May 23, 2000, the Administration's FY 2001 request for full EZ funding was superseded when President Clinton joined House Speaker Dennis Hastert in announcing a bipartisan agreement on New Markets, Empowerment Zones and Renewal Communities. Funding for Round II Empowerment Zones and a new competition for a Round III of Empowerment Zones is included in this agreement.

The May 23rd announcement is the outcome of the commitment President Clinton and Speaker Hastert made in Chicago last November to develop a bipartisan legislative initiative on New Markets and revitalizing impoverished communities this year. This initiative will help encourage private sector equity investment in underserved communities throughout the country to ensure that all Americans share in our nation's economic prosperity. The President's New Markets Initiative was originally proposed in President Clinton and Vice President Gore's FY 2000 Budget. President Clinton has highlighted the potential of the nation's New Markets in three separate trips across America to underserved inner cities and rural communities like Newark, New Jersey; Hartford, Connecticut; the Mississippi Delta, Appalachia, and rural Arkansas, and the Pine Ridge Indian Reservation in South Dakota.

The agreement provides for $200 million in funding and tax credits for Round II EZ areas; $100 million in funding would be provided for FY 2001 and $100 million would be requested in FY 2002. The agreement also authorizes the designation of nine new Empowerment Zones (no grant funding–only tax incentives), bringing the total number to 40 EZ areas, and would extend the duration of all 40 EZ designations to 2009. Seven of the new nine Round III EZ areas would be urban and two would be rural. The EZ provisions are estimated to cost $2 billion over five years and $4 billion over 10 years.

If the agreement becomes law, the following incentives would be available to all Empowerment Zones:

- Wage credit equal to 20 percent on the first $15,000 of qualified wages per employee;
- Authority to issue tax-exempt bonds to promote business development;
- Incentives for EZ business investment by permitting EZ businesses to deduct an additional $35,000 in capital expenditures;
- Zero-rate on capital gains rolled over to another EZ business investment, and a 60 percent exclusion of capital gains derived from small business stock.
- The EZ provision also includes an extension through 2009 of the Empowerment Zone incentives for the District of Columbia.

Belief in the Empowerment Zone philosophy and concept remains strong. Both USDA and the communities are committed to the implementation of the strategies identified in their Strategic Plans, and the pursuit of their overall vision to improve the quality of life for all residents.

I am pleased to be here and to have had the opportunity to share with you the accomplishments of the Empowerment Zone and Enterprise Community program. I can say from my own experience that it works. I want to thank Congresswoman Bono for her commitment to the EZ/EC program, and for her leadership regarding this important legislation. I also want to thank Congressman LoBiondo, Congressman Watkins, and Congressman Capuano for their efforts uniting the Congressional Representatives of EZ/EC communities through the establishment of the EZ/EC Congressional Caucus. Thank you again for giving me the opportunity to share our successes. I look forward to your continued support and interest.

Cumberland County Empowerment Zone

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

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

Cumberland County is one of the most distressed counties in New Jersey. Unemployment is nearly twice the national average. Educational attainment is well below the State average. Almost 37% of adult residents of the County do not have a high school degree. The County's drop out rate is the sixth highest in the State. Many areas of the County, particularly the targeted Empowerment Zone have inadequate transportation. Teenage pregnancy is extremely high. The percentage of families on welfare and public assistance is one of the highest in New Jersey—with five census tracts in the County registering poverty rates in excess of 25%. These five tracts make up the urban neighborhood components of the Empowerment Zone. Per capita income is the lowest in the State at $20,987 (1996 figure).

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

Cumberland County is a diverse community. Its heritage centers not only on the traditional types of jobs and industries that were so important to its development, but also on the people who came to live and work here. Because many of the neighborhoods that are the subject of this Empowerment Zone grew up around the movement of diverse groups of people for jobs in the mills and factories, they are steeped in the rich history of these migrations. Italians came to this area to work in the fields and food plants in Vineland. Eastern Europeans migrated to the area for jobs and a chance at new lives. African Americans worked in the oyster and seafood industries of the Delaware Bay shore as well as the farms and factories. More recently, citizens of Puerto Rican and Mexican origin have come to claim their piece of the American Dream. This blend of cultures and people in conjunction with the rich commercial and industrial heritage of the area is the history of Cumberland County. It is in this proud past where the roots of better tomorrows can be sown. Cumberland County's citizens, businesses and communities have been working hard to bring these dreams to fruition.

Cumberland County is located midway between the Delaware River and the Atlantic Ocean, in the southernmost part of New Jersey. The County comprises fourteen municipalities. Four of these communities, including the three cities of Bridgeton, Millville and Vineland are part of the Empowerment Zone. The fourth municipality,

Commercial Township is adjacent to Millville and is the home of Port Norris, one of the most isolated pockets of poverty in the region. From the days of their first settlement, these communities were shaped by the rich natural resources of Cumberland County.

Port Norris
Port Norris is developed around the fishing, oystering and seafaring industries. Once a magnificent coastal town, the community fell on hard times in the 1960s after the oyster industry was decimated by a parasitic infestation. This problem caused the loss of critical jobs. Although still home to an active fishing fleet and recreational boating industry, many of the once prosperous homes and businesses in Port Norris have fallen into disrepair. Poverty exceeds 25%.

Millville
The rich deposits of silica sand promoted the development of a thriving glass industry in Millville, Bridgeton and Vineland. Millville is most noteworthy as a historic, glass-factory town. The first glass plant was founded in 1806. Neighborhoods and community businesses sprang up around the newly developing industry. T.C. Wheaton, an early industrial pioneer, founded a plant that later evolved into an international firm. Many other glass firms, including international names such as Durand continue to employ many area residents. Wheaton Village, a re-creation of a historic glass town of the nineteenth century provides an important link to the community's heritage and to the tourism industry of southern New Jersey. Although Millville retains important connections to the glass industry, many of the glass plants in other parts of the County no longer exist.

Bridgeton
When the Owens-Illinois glass plant in Bridgeton closed in the 1970s, more than 3,000 jobs were lost. The neighborhood around this idled factory is one of the most distressed in the County as well as the targeted Empowerment Zone areas. Other industries that have been an historic part of the city's industrial base have also declined. Food processing was once the cornerstone of the community. Names such as Hunt-Wesson, Ritter, and others formerly employed thousands of area residents. However, many of these firms left the community for the year-round growing seasons in the Southwest and West. Their departure reduced the workforce in Bridgeton by 37% from the late 1950s to the present.

Vineland
The City of Vineland can trace its history to its links with natural resources. Agriculture and food processing were integral aspects of the City's development. Charles K. Landis, the City's founder, called his new community Vineland because of its agrarian links. As evidence of Landis' new vision, the community saw the rise of a prosperous food industry. Thomas Welch, the founder of the Welch's Grape Juice Company, first processed his renowned product in 1869 at the corner of Fourth and Plum Streets, a neighborhood that is part of the Empowerment Zone. Today, the Vineland Produce Auction is one of the largest operations of its kind on the East Coast. Other important food-processing operations remain in the community, but as in the case of Bridgeton and Millville, Vineland also saw a decline in the glass, textile and other historic industries

that were part of its early settlement. The City's downtown, once the premier shopping destination in the region, has fallen on difficult times as a result of the move toward suburban and automobile-oriented shopping destinations have developed. As a result of the shifts in the shopping patterns and in the industrial base of the region, neighborhoods of the City—once characterized as "rose in the wilderness"— now struggle to maintain their sense of place. Jobs once accessible to these neighborhoods no longer exist. Poverty rates exceed 25% and in some cases 30%.

Whether neighborhoods sprang up around the early food processing industries in Vineland, the glass plants in Bridgeton or Millville, or the seafaring industries of Port Norris, they have many architectural assets that, with the proper long-term revitalization strategy can be restored to their past viability. Bridgeton has the largest historic district in New Jersey, encompassing more than 2,200 structures. Most of these structures are located in the Empowerment Zone. In Vineland, the neighborhoods that surround a once thriving Main Street can bring new vitality to the area. Safe and affordable housing for residents for these communities is an important goal. So is removing drugs and crime from the streets. Providing places for children to play and enjoy life also beckons back to a simpler time and a desire to return this sense of community. Enabling people to have access from their neighborhoods to the simplest amenities without having to get in a car or travel a great distance is a vision shared by many. Citizens of Port Norris would like to see their Main Street redeveloped so people can locally obtain the basic needs of life – food, clothing, medical care and access to economic opportunity. Redeveloping brownfields and abandoned factory buildings in and near neighborhoods that are the subject of this application can give people places to work and restore their sense of pride, their own economic sustenance and ownership in the community.

The Empowerment Zone strategy provides the foundation, opportunity and most importantly, the long-term strategy to revitalize Cumberland County and bring these visions to fruition.

Unique Strengths and Characteristics of the Cumberland Empowerment Zone

The Cumberland County Empowerment Zone contains a number of very unique strengths and characteristics. Among these are the following:

Regional Perspective
The strategy addresses a number of issues and problems from a regional perspective. Solutions to enhance transportation, provide sustainable economic growth and address many of the social deficiencies of the area are linked to intermunicipal cooperation and regional solutions. Examples include a shared revolving loan fund, the regional cooperation of business and industry in providing jobs and childcare for zone residents and the cooperation of local school districts in addressing a number of training and educational needs.

Intermunicipal Involvement
The Zone strategy includes the cooperation of municipal, County and State government. It joins the goals and objectives of four municipalities, Bridgeton, Millville, Vineland and Port Norris, in a common effort to revitalize these communities by reducing poverty, creating economic opportunity and raising the standard of living throughout the region.

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

Thematic Links to Heritage
One of the particularly strong aspects of the Zone's strategy is the focus on restoring the region's proud heritage. The goals and objectives of the strategic plan are all linked to revitalizing the industrial, economic, residential and cultural heritage of the region.

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

The Strategic Plan highlights the collective vision and assets of the region. The collaboration necessary to develop the plan was the catalyst for eliminating previous practices where parochial interests too often overshadowed the needs of the region at large.

During the time between August and September 1998, several meetings and workshops were held to solicit input from potential zone partners and participants. In addition, a community needs survey was developed and sent to social service leaders, municipal officials, business leaders, financial institutions and government officials. More than 100 businesses were contacted through Chamber of Commerce meetings and special business meetings. The school districts, community college and technical education center were also involved in the formation of the plan. From these efforts, a number of economic and community development priorities were identified:

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

This objective was identified as the top priority. In addition, job retention and labor force preparation were also identified as key economic development issues. In separate

outreach meetings with the business community workforce readiness, including basic skills training were identified as a high priority.

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

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

- **Reduce Welfare Dependency through Jobs**

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

- **Childcare and Other Socioeconomic Needs**

There were a number of other priorities identified. These included providing opportunities for youth including more organized recreation, greater investments in affordable childcare, reducing substance abuse, stronger partnerships in education and training and a stronger family structure.

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

With $130 million in tax-exempt bond financing as well as special employment credits to industries hiring Zone residents, each Empowerment Zone community and County businesses stand to benefit greatly. These funds will be used for development and redevelopment projects in Bridgeton and Vineland as well as the "developable sites" in Vineland, Millville and Port Norris.

Some examples of the initiatives and projects presently being implemented by the Cumberland County Empowerment Zone include:

Summary of Key Initiatives and Accomplishments for this year

- Over 700 jobs will be created or maintained in the Cumberland County Empowerment Zone
- 300 Empowerment Zone residents will be assisted through a myriad of training/counseling/placement programs within the Zone
- Over 100 housing units will be rehabilitated or constructed in Empowerment Zone neighborhoods

Leveraging:

The Cumberland Empowerment Zone will implement over 30 projects and programs by utilizing $6 million in Round II Empowerment Zone funding. These projects are estimated to leverage an additional $43 million dollars in private, public and Tax Exempt Bond financing.

Employment and Training:

The Empowerment Zone is working in close collaboration with the Cumberland County Office of Employment Training Work to implement a multitude of training and technical assistance service to Empowerment Zone residents and businesses. Through its One Stop education and training facility, the Office of Employment Training is able to assist local residents with job training, education and placement. The Center also provides easy access and information for business to obtain information regarding the array of services and tax incentives available to them as a result of the Empowerment Zone designation. Customized training programs have been created in conjunction with local business in the community to facilitate specific training and educational needs of Zone residents.

Employer Tool Kit:

The Cumberland County Office of Employment and Training and the Cumberland Empowerment Zone have created an employer "Tool Kit." This resource allows businesses to receive information and the tools necessary to obtain the various tax incentives that exist within the Empowerment Zone. The tool kit has enabled businesses to receive over $300,000 in tax credits as a result of the Empowerment Zone tax incentive programs.

Summer Training Program:

A public/private partnership has been formed with local businesses to create a summer youth training and transportation program for Empowerment Zone Youth. These partners include the local school systems, WaWa Food Markets, The Casino Industry, Cumberland County Office of Employment and Training and the Cumberland Empowerment Zone. The program offers local Empowerment Zone youth job placement, on the job training and transportation to and from their place of employment. Every morning buses pick up 65 employees at local high schools within the Zone and transport them to their place of employment where they work an eight-hour shift before catching another bus home. This collaboration has solved worker shortage problems of the private industry by providing the training and transportation mechanism to the training participants. The program has created over $20,000 in tax savings and an economic impact in excess of $420,000.

The New Jersey Academy of Aviation Science:

The Academy will be a state of the art, comprehensive aviation education facility offering adult and high school students within the Zone a full aviation education program. It will also allow for customized training for the aviation industry through a multitude of private collaborations. The Delaware River Bay Authority (DRBA) will provide $300,000 to renovate an existing hangar to educational specifications. Dallas Airmotive has paid for architectural work to design a new building and has committed to provide technical assistance and used equipment ($56,000). NASA has agreed to partner to provide

educational services and technical assistance. The William Hughes FAA Technical Center has provided curriculum guides for the project. Cumberland County Technical Education Center will continue its partnership in the venture with Cumberland County College through an articulation agreement. County and Federal funds will also be leveraged to support the project ($230,000).

Home Ownership and Neighborhood Revitalization:

The Cumberland Empowerment Zone Corp. is presently working with Fannie Mae, the Local Initiatives Support Corporation and the State of NJ to create a multi-million dollar home ownership and neighborhood revitalization program. The program will seek to leverage in excess of $10 million in private and public funds to provide production, low interest mortgages, down payment assistance, construction financing and housing rehabilitation funding to assist with the economic opportunity and revitalization of the designated census tracts within the zone. Over the next three years, the Cumberland Empowerment Zone seeks to build or renovate over 150 homes within its targeted neighborhoods.

Transportation:

The Cumberland Empowerment Zone is working with a private developer, the Cumberland County Transportation Coordinator, the Department of Transportation and the NJ Transit Authority to create a coordinated transportation system throughout the County. The system will utilize existing transportation systems and resources to facilitate transportation from the targeted census tracts to residents' workplaces. The Zone will create regional transportation centers that will support the coordinated system by providing riders central locations for pick up and drop off. The centers will provide an array of services including but not limited to, daycare, job training and placement assistance and retail services.

Summary

I would like to thank you for allowing me the opportunity to speak to you today concerning the history, formation, strategy, opportunity and corresponding success of the Cumberland Empowerment Zone.

When evaluating the Empowerment Zone and the corresponding benefits and opportunities that are created, one must understand that the Empowerment Zone is NOT a program, but a **STRATEGY**. A long-term strategy that is quite unique. A **STRATEGY** that will transform the way we now do business in Cumberland County. A **STRATEGY** that provides the mechanism to effectuate change in our approach and implementation of economic and social programming. This change is attainable as a result of the myriad of partnerships and collaborative efforts directly resulting from this designation.

The Empowerment Zone designation has become the CATALYST for CHANGE in 15 communities nationwide.

The Empowerment Zone…

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

During the upcoming year our initial allocation of $6.6 million dollars will:

- Leverage a total of $43 million (almost $7 for every Empowerment Zone dollar allocated)
- Create at least 700 jobs
- Provide Tax savings to local businesses in excess of $300,000
- Provide job readiness training and workforce development to over 300 Empowerment Zone residents
- Create a regional transportation network that will provide access to jobs for local Empowerment Zone residents
- Facilitate the private investment of over $10 million for neighborhood redevelopment activities

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

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

No community or organization will be able to solve all of its problems as a result of the implementation of the plan. The Empowerment Zone designation is not a panacea.

However, it does provide the mechanism and long-term strategy to overcome many of the social and economic challenges that presently exist in our communities. The vision and strategy outlined in the Zone's comprehensive plan provide the blueprint for the future and the guide for attaining self sustaining residents, businesses, communities and the region as a whole.

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

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

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

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

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

Certification of Funding:

Please note that Mr. Gerard Velazquez III has not received any HUD funding in a personal capacity. In his capacity as the Executive Director, the Cumberland Empowerment Zone Corporation has received Round II Federal Empowerment Zone funding in the amount of $6.6 million dollars.

Curriculum vitae:

A summary of Mr. Velazquez' experience is attached for your review and consideration.

My name is Rev. James A. Dunkins. I am the Pastor of the Shiloh Baptist Church, which is One Church In Two Locations. We have a church located in Port Norris and Vineland. My church, which is located in Commercial Township is a part of the Empowerment Zone Area. In 1997, we established the Shiloh Baptist Development Corporation to develop and run programs that would be beneficial to our community. We have partnered with many other agencies in our area to try to alleviate some of the chronic employment and social problems within our area.

I have been a lifelong resident of Cumberland County, leaving only for a brief period for educational purposes and then right back in the area. Besides pastoring, I have been employed for twenty years in the Bridgeton Public Schools first as a Teacher and a Coach and presently as an Administrator and the Affirmative Action Officer for the area. As you can tell from my background, I have seen a lot of the problems that affect a lot of the populations within our community. It is through the granting of the Empowerment Zone and the working of the Empowerment Zone that these problems can be alleviated. I believe that the Empowerment Zone will give us the tools, the direction, and the commitment we need from businesses to help the residents of our community to really become empowered economically.

Let me share a little bit about Cumberland County, and specifically, the Port Norris area and our involvement as a church. For the past few decades, Cumberland County has experienced chronic economic and social depression. This small, rural community has the highest unemployment rate, the lowest per capita income, the highest teen pregnancy rate, the highest juvenile arrest rate and the highest percentage of adults without high school diplomas in the State of New Jersey. Cumberland County has the third highest poverty rate in New Jersey and one in ten families is collecting public assistance.

Commercial Township is a small municipality located at the southern end of Cumberland County, and Port Norris is the largest town within the township. The only industry known to this area was over fifteen years ago when harvesting oysters was the main occupation among residents. At this time, there are virtually no businesses located in Port Norris and this area is experiencing an increasing level of poverty, illiteracy and juvenile crime.

With the exception of grammar and middle schools, there are no educational institutions located in this depraved area. There are no community centers or any type of community based organizations located in Port Norris, although it is evident that the residents of this community, particularly the youth population, would benefit greatly from community activities and educational programs. In order to participate in any educational or community activities, it would be necessary for residents to travel to Millville, which is located approximately 20 miles away. Public transportation in the county is limited to the cities of Bridgeton, Millville and Vineland with no routes extending to the eleven other municipalities. Without transportation, residents have very limited employment opportunities and adult education and vocational training programs are impossible to attend. Residents of Port Norris that do not own private vehicles face extreme barriers to transportation, and even self-sufficiency. These problems facing local residents are not new discoveries, however, the philosophy of bringing much needed community, educational, and vocational services to these residents is new, and so far, it has been successful.

Although many things are lacking from this area, Port Norris does have a very large, active, and expanding church community, the Shiloh Baptist Church. I was installed as Pastor of Shiloh Baptist Church, and since I have been at the church, the size of the congregation has more than doubled over the past five years. Residents of the community gather at the church for worship service, social functions, and financial assistance.

Disheartened by the lack of support given to area residents by mainstream assistance programs, Shiloh began our own community service to the poverty-stricken residents of Port Norris and its surrounding area in 1990. The community support began as many other church programs do - with the distribution of holiday food baskets and clothing for needy families. With an increasing amount of need in the area, these services soon progressed and we began to distribute food on a more regular basis. Residents unable to pay rent or utility bills also sought out the church for temporary housing assistance. Along with the growing need of community residents, came the growth of Shiloh's Vision of existing as more than a church assisting members of its congregation. Shiloh envisioned being a part of a caring environment where all individuals in need could receive more than temporary help. Shiloh's goal was to change people's lives and the community as a whole, from the bottom up, by investing in human capital.

The Vision of the Shiloh Baptist Community Development Corporation was born and in late 1990, the church began partnering with other organizations to operate programs for the residents of their remote community. With the cooperation of the Tri-County Community Action Agency, Shiloh ran a local Head Start and Women Infant and Children (WIC) Program. The food, clothing, and housing assistance continued, along with assistance for homeless individuals which includes securing a place for them to live and helping them get back on their feet. In early 1998, the Shiloh Baptist Church decided to officially establish the Shiloh Baptist Community Development Corporation. The corporation published its vision and goals for the community and began planning to implement these goals with the help of some well established organizations.

In March of 1998, a unique partnership was formed when a meeting was held at the church to discuss the serious unemployment issues facing the residents of Port Norris. The impetus of this meeting was the new work requirements under New Jersey's current welfare reform program, Work First New Jersey. In the past, residents of Commercial Township collecting public assistance were not required to participate in education, training, or job programs due to the remoteness of their residence. Work First New Jersey contains no such participation exemptions for these individuals and no efforts have been made by the State of New Jersey to make public transportation available in remote areas such as Commercial Township and Port Norris.

To find a solution to the Work First participation problem, the Cumberland County Office of Employment and Training, the Cumberland County Board of Social Services, Tri-County Community Action Agency, the Cumberland/Salem Workforce Investment Board and the Shiloh Baptist Church began meeting and established a collaborative. In June of 1998, the Work First New Jersey Port Norris Career Center was opened at the Shiloh Baptist Church and for the first time, residents of this community were given the opportunity to attend training and obtain job skills without traveling at least

twenty miles. The center consists of fifteen multi-media computers with the capabilities of providing job seeking skills and some basic skills remediation. The center is staffed by the Office of Employment and Training and its main function is to provide activities to TANF (Temporary Assistance to Needy Families) recipients between the hours of 8:30 a.m. and 4:30 p.m., Monday through Friday. The center is a milestone for Port Norris and the success is unprecedented, but many more residents of the community require educational and vocational assistance, especially the juvenile drop-out population.

Over the past several years, Port Norris has realized an increasing number of juvenile high school drop-outs and criminal offenders. Cumberland County's juvenile arrests rank among the highest in New Jersey and 29% of all arrests in the county are of juvenile offenders. Currently, Port Norris teens that drop out of high school are at a high risk of getting into trouble with the law. There are no community centers or programs available for the youth to occupy their time, and obtaining employment without a high school diploma is becoming more difficult as the work environment becomes increasingly technical in nature. We started this program to break the cycle of crime for the youth population by providing them with alternative activities. These activities will offer education and job readiness skills necessary for receiving a high school General Equivalency Degree and obtaining employment. Participants that attain the GED and gain work maturity skills will be more likely to enter the world of work and leave behind a life of crime.

As you can see, we have a lot of programs going on and we are partnering with other agencies so that there will be a transition in the self-sufficiency through the money in the Empowerment Zone getting extra position, getting the buildings redone, and evolving into a program that can get full cooperation with the school system as an alternative program. This will give us the ability to receive tuition, thereby having the program self-sufficient. We are also badly in need of businesses in the Port Norris area. At one time, a very thriving area, not only for the fishing and oyster business, but also with a small downtown area - a movie theater, stores, laundromats, barbers shops, beauty shops, car washes, etc. At present, none of these things exist because of the water waste treatment system. One of our biggest proposals that has been written for the Empowerment Zone which we think will attract other business is to get a new water waste system in. That in itself will bring a great deal of money into the area and viable businesses for the residents of Commercial Township.

The Empowerment Zone is invaluable in us reaching and attaining some goals of stability. Please help us reach that goal. This is a process of where you are not throwing good many after bad. Every dollar is precious and every dollar is strategically programmed to build a community that could not exist or that is barely existing without it.

Thank you.

WRITTEN STATEMENT BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS, SUBCOMMITTEE ON RURAL ENTERPRISES, BUSINESS OPPORTUNITIES, AND SPECIAL SMALL BUSINESS PROBLEMS

JUNE 7, 2000
WASHINGTON, DC

Written Statement of the EZ/EC Initiative Office,
Office of Community Planning and Development
U.S. Department of Housing and Urban Development
June 7, 2000

Mr. Chairman. Thank you for the opportunity to include in the hearing record written testimony on the Clinton/Gore Administration's Empowerment Zone/Enterprise Community Initiative. Secretary Cuomo, Assistant Secretary Cardell Cooper, and the rest of the HUD team have worked tirelessly to make the Urban EZ/EC Initiative a success. We appreciate your commitment to the EZ/EC Initiative, and look forward to partnering with you, other Members of this Committee, and the entire Congress to enhance community revitalization efforts across the nation. This testimony summarizes the accomplishments of the Urban EZ/EC Initiative and provides a brief overview of the Administration's FY 2001 budget request to Congress. We have also provided the Subcommittee with copies of the EZ/EC Initiative best practices guide called, "What Works, Volume III," which details individual success stories within the urban and rural EZ/ECs.

Accomplishments of the Urban Empowerment Zones and Enterprise Communities

Since its inception in 1994, the Clinton/Gore Administration's Empowerment Zone and Enterprise Community (EZ/EC) Initiative has produced outstanding results by empowering people to create business opportunities and jobs, leverage billions of dollars from public and private partnerships, provide innovative job training, affordable housing, health care, child care, transportation and other critical services to hundreds of thousands of EZ/EC residents, and make communities safer and more attractive places to live and raise a family. Distressed neighborhoods -- with some of the deepest pockets of poverty in the nation -- are now on the road to recovery. After decades of decline, there are now real opportunities and brighter futures for residents and families living in urban and rural EZ/EC neighborhoods.

Hundreds of individual EZ/EC achievements are featured in our best-practice publications: "What Works! - Volume 1, Volume 2 & Volume 3" which has been provided for today's hearing. "What Works, Volume IV" will be provided to the Subcommittee in the coming weeks. The following accomplishments provide a national snapshot of the cumulative successes of the Urban portion of the Initiative as reported by the EZ/ECs through the period ending June 30, 1999. The EZ/ECs reported this information using HUD's cutting-edge Internet-based EZ/EC Performance Measurement System (PERMS). Again, the cumulative results shown below are based on the data submitted by EZ/ECs as of June 30, 1999.

- ✓ ***Workforce Development:*** The Empowerment Zones and Enterprise Communities report that they are engaged in more than 809 job training programs with over 68,000 Zone residents having received job training. Nearly 35,000 Zone residents have been placed in jobs as a result of these job training programs. Zone residents have attended 246 job fairs resulting in over 14,400 job placements.

- ✓ ***Access to Capital:*** As a result of the EZ/EC Initiative, access to inexpensive sources of capital -- the lifeblood of commerce -- has greatly improved. Loan pools totaling over $520 million dollars have been created with over 3,000 loans processed and 7,949 jobs created from those loans. In total, the EZ/EC's report that over 26,000 businesses have received financial assistance and 10,225 have received technical assistance to improve operations.

- ✓ ***Projects and Programs:*** The EZ/ECs report that over 2,500 neighborhood-based projects and programs have been developed and are under way as a result of each EZ/ECs' locally-derived Strategic Plans. One billion dollars in Federal EZ/EC seed money has leveraged over $11 billion dollars in additional public and private sector investments related to the implementation of local EZ/EC Strategic Plans.

- ✓ **Housing:** The Empowerment Zones and Enterprise Communities report that they have completed over 4,600 new housing units and have rehabilitated another 18,400. Nearly 20,000 homeless people have been served under various homeless programs. The Empowerment Zones and Enterprise Communities have served over 30,000 residents through homeownership programs.

- ✓ ***Private Sector Involvement:*** Private sector involvement has played a vital role in the EZ/EC Initiative. Countless corporations have hired Zone residents and actively participated in EZ/EC governance, as well as providing funds and in-kind technical assistance to the Zones. Well-known companies involved in the Zones include General Motors, Ford, Chrysler, Home Depot, The Walt Disney Company, GAP, Ameritech, Rite Aid, Microsoft, Starbucks, MCI/Worldcom, IBM, and hundreds of others.

- ✓ ***Environment:*** The EZ/ECs report that they are engaged in 66 Brownfields projects – transforming abandoned and contaminated commercial and industrial sites into clean, reusable parcels of land for development. EZ/EC's have remediated 1,166 Brownfields sites to date. The EZ/EC's are also involved in 226 beautification programs.

- ✓ ***Crime Prevention:*** The EZ/ECs report that 908,000 residents have been served through 413 crime prevention programs.

- ✓ ***Health Care:*** There are 363 health-related programs in the EZ/ECs serving over 400,000 residents. Twenty-six new health-care facilities have opened in the EZ/EC neighborhoods and 9 have been remodeled, providing expanded services to greater numbers of families.

- ✓ ***Human Services:*** Within the Empowerment Zones and Enterprise Communities, there are:
  - over 200 child care programs serving over 14,000 Zone families;
  - 80 programs for the elderly serving over 10,500 Zone residents;
  - over 430 youth programs serving 183,241 Zone youth; and
  - over 400 recreation/arts programs serving over 250,000 Zone residents.

✓ ***Education:*** Education is vital to the well-being and economic development of the EZ/EC's. The following are educational successes:

- 7,350 children have been served by 121 Head Start/pre-school programs;
- over 55,000 EZ/EC residents have been served by 329 K-12 education programs;
- over 6,000 residents have been served by 24 post secondary assistance programs; and
- 3,628 residents have been served by 45 vocational education programs.

Administration's FY 2001 Budget Request and Bipartisan Agreement on EZ/ECs, New Markets, and Renewal Communities

On May 23, 2000, the Administration's FY 2001 request for full EZ funding was superseded when President Clinton joined House Speaker Dennis Hastert in announcing a bipartisan agreement on New Markets, Empowerment Zones, and Renewal Communities. Funding for Round II Empowerment Zones and a new competition for a Round III of Empowerment Zones is included in this agreement.

The May 23rd announcement is the outcome of the commitment President Clinton and Speaker Hastert made in Chicago last November to develop a bipartisan legislative initiative on New Markets and revitalizing impoverished communities this year. This initiative will help encourage private-sector equity investment in underserved communities throughout the country to ensure that all Americans share in our nation's economic prosperity. The President's New Markets Initiative was originally proposed in President Clinton and Vice President Gore's FY 2000 budget. President Clinton has highlighted the potential of the nation's New Markets in three separate trips across America to underserved inner-city and rural communities like Newark, NJ, Hartford, CT, the Mississippi Delta, Appalachia, and rural Arkansas, and the Pine Ridge Indian Reservation in South Dakota.

KEY ELEMENTS OF THE AGREEMENT

EMPOWERMENT ZONES

The agreement provides for $200 million in funding for Round II EZs and provides a wage tax credit for the Round II EZs. $100 million in funding would be provided for FY 2001 and $100 million would be requested in FY 2002. The agreement also authorizes the designation of 9 new Empowerment Zones (no grant funding--only tax incentives), bringing the total number to 40 EZs, and would extend the duration of all 40 EZ designations to 2009. Seven of the new nine Round III EZs would be urban and two would be rural. The EZ provisions are estimated to cost $2 billion over 5 years and $4 billion over 10 years.

If the agreement becomes law, the following incentives would be available to all Empowerment Zones:

- Wage credit equal to 20 percent on the first $15,000 of qualified wages per employee;
- Authority to issue tax-exempt bonds to promote business development;
- Incentives for EZ business investment by permitting EZ businesses to deduct an additional $35,000 in capital expenditures;
- Zero-rate on capital gains rolled over to another EZ business investment, and a 60 percent exclusion of capital gains derived from small business stock.
- The EZ provision also includes an extension through 2009 of the Empowerment Zone incentives for the District of Columbia.

NEW MARKETS INITIATIVES

- New Markets Tax Credit. The deal includes the President's New Markets Tax Credit to spur $15 billion in new private-equity investment for business growth in our nation's inner cities and isolated rural communities. Investors in eligible funds would receive a tax credit worth, in present-value terms, more than 30 percent of the amount invested. Investors would take a 5 percent credit for the first 3 years of investment, and 6 percent for the next 4 years. Eligible funds would include a wide range of entities, including community development banks and other community development financial institutions, venture funds, for-profit subsidiaries of community development corporations, America's Private Investment Companies, and New Markets Venture Capital Firms. The New Markets Tax Credit would be widely available on a competitive basis to funds serving low- and moderate-income communities around the country, those with census tracts with poverty rates of at least 20 percent or median family income that does not exceed 80 percent of area income. The proposal costs $1 billion over 5 years and $4.5 billion over 10 years.

- America's Private Investment Companies (APICs): This HUD/SBA legislative proposal will create investment funds with minimum private capital of $25 million (which is eligible for the New Markets Tax Credit), that could then borrow twice that amount at government-guaranteed rates and spur $1.5 billion in private investment. APICs would be structurally similar to the existing SBA Small Business Investment Company (SBIC) program, and the Investment Funds of the Overseas Private Investment Corporation, but would generally be much larger. APICs would fund larger businesses, such as new back office operations, plant expansions, and conversions of old facilities into modern industrial "incubators" for smaller businesses. Currently there are few, if any, sources of long-term risk capital for these landmark investments in most poorer communities. The agreement authorizes HUD to guarantee up to $1 billion in low-cost loans that will match $500 million in private investors' contributions, to make a total of $1.5 billion available to invest in low- and moderate-income communities.

- New Markets Venture Capital Firms (NMVC): This SBA legislative proposal would create a new class of venture capital funds that target investment in small businesses in low and moderate income areas. NMVC would also provide intensive hands-on management assistance to their small business portfolio investments. NMVCs would target smaller firms with growth prospects that do not currently have sufficient equity base. NMVCs must have $5 million minimum in private equity, plus $1.5 million in cash or in-kind commitments raised from private sources to provide operating and management assistance. For investment capital, the SBA would provide up to $1.50 in financial assistance for each $1 that private investors contribute. The SBA would also match privately-raised operating assistance one-to-one. The agreement authorizes SBA to guarantee up to $150 million in loans to match $100 million in private equity, for a total of $250 million in investment capital for these communities. In addition, the agreement authorizes SBA to make $30 million in grants to match private commitments for operating assistance to the NMVC's portfolio companies.

RENEWAL COMMUNITIES

The creation of 40 Renewal Communities (32 urban, 8 rural), which will be designated by the U.S. Dept. of Housing and Urban Development, will help revitalize communities using targeted, pro-growth tax benefits, and regulatory relief. The tax benefits of Renewal Communities would address key hurdles facing small businesses when they are just getting started – raising capital and maintaining cash flow. Key incentives aimed at spurring investment in Renewal Communities include:

- Zero Capital Gains Rate on the sales of assets held for more than 5 years.
- Increased Expensing for Small Businesses (up to $35,000 more than in current law for equipment).
- 15% Employment Wage Credit (maximum credit of $10,000) for each worker.
- Commercial Revitalization deductions for taxpayers who rehabilitate or revitalize buildings in a Renewal Community.

In addition, the New Market/Renewal Communities Agreement includes the following incentives.

EXPANSION OF THE LOW-INCOME HOUSING TAX CREDIT

The deal includes the President's proposal to expand the low-income housing tax credit volume cap by 40 percent, from $1.25 per capita to $1.75 per capita, and to index the credit for inflation thereafter. The tax credit, which is administered by the states, currently helps to build 90,000 affordable housing units each year, but demand for the credits outstrips supply by three to one, and more than 5 million low-income Americans live in inadequate housing. The proposal would help create an additional 180,000 units of affordable housing over the next five years for low-income families. The proposal costs $1 billion over 5 years and $6 billion over 10 years.

ALLOWING FAITH-BASED ORGANIZATIONS TO QUALIFY FOR SUBSTANCES ABUSE FUNDS

This agreement will allow faith-based organizations to qualify for substances abuse prevention and treatment funds on the same basis as other non-profit organizations. Both the President and Vice President believe that faith-based and community-based organizations can play an important and constructive role in addressing some of our nation's most pressing problems, including preventing and treating substance abuse. At the same time, the Administration has been clear that the 'charitable choice provisions' included in this agreement and in other legislation the President has signed can and must be construed and implemented consistent with the constitutional line between church and state.

The provisions of the agreement are substantially similar to the charitable choice provisions included in the welfare reform law signed by the President in 1996, and in the substances abuse bill that passed the Senate on a bipartisan basis last fall.