

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

Engine House No. 11  
1000 E. Main Street  
Columbus, Ohio 43205  
Phone: 614. 251. 0926  
Fax: 614. 251. 2243  
Email: [ccc@colcompact.com](mailto:ccc@colcompact.com)  
<http://www.colcompact.com>

**TESTIMONY SUBMITTED BY:**

Jonathan C. Beard  
President and CEO  
Columbus Compact Corporation

April 8, 2002

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

Chairman Oxley and members of the Committee:

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

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

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

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

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

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

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

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

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

*Ron Hupman  
Chair*

*Michael Thomas  
Vice Chair*

*John C. Davis  
Treasurer*

*Damon Minter  
Secretary*

*Jonathan C. Beard  
President / CEO*

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

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

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

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

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

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

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

committed to encumbering and spending the dollars wisely and timely, but we cannot do that until HUD releases the grant agreements.

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

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

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

1. **18<sup>th</sup> Street Energy Efficient Housing Project:** Neighborhood House, Inc. is planning a ground-breaking ceremony for April 2002, for the first of seven energy-efficient, new-build market-rate housing units for homeownership on the Near East Side. Empowerment Zone funds will be used over the next two years to guarantee construction financing provided by National City Bank. This guarantee – EZ funds on deposit – manages National City's lending risk for a new product in an untested market. The relatively small amount of EZ funds (\$100,000) leverages \$945,000 in private investment in the zone. Just as importantly, the nature of the guarantee is designed to recover and recycle all EZ funds, reflecting two important objectives of the EZ program's local administration: conservation of scarce federal EZ resources and maximization of private sector investment.
2. **Milo Arts Facility:** Milo Arts is investing \$1.1 million to rehabilitate and bring to code an artists' residential and workshop colony housed in a beautiful, but dilapidated, 19<sup>th</sup> century era school building. \$250,000 in Empowerment Zone funding is being used to refinance existing debt on the building. The new EZ debt replaces first-mortgage debt, and the new EZ debt will be subordinated to \$700,000 in new private lending that will be a part of this simultaneous loan closing. (The owner is also investing \$150,000 cash into the project.) Again, EZ dollars – through their subordinated position -- are reducing risk to the commercial bank lender, thereby allowing private sector investment in a project which otherwise would not meet commercial underwriting standards. Again, all EZ dollars will be recycled back to the EZ program as they are repaid over the next seven years.

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

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

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

**Jonathan C. Beard**  
**President and CEO**