

STATEMENT OF KENNETH J. KNUCKLES, ESQ., PRESIDENT & CEO  
THE UPPER MANHATTAN EMPOWERMENT ZONE DEVELOPMENT CORP.  
TESTIMONY BEFORE THE SUBCOMMITTEE ON SELECT REVENUE MEASURES  
OF THE HOUSE COMMITTEE ON WAYS AND MEANS  
OCTOBER 7, 2009

Good morning.

My name is Kenneth J. Knuckles. I am the President and Chief Executive Officer of the Upper Manhattan Empowerment Zone Development Corporation, or as it is better known, UMEZ.

First, I would like to thank Chairman Neal and Ranking Member Tiberi and the other members of the Committee for inviting me to provide testimony today about about tax incentives for distressed communities, EZs and RCs.

The EZ and RC programs are a strong part of addressing poverty unemployment and creating opportunity in areas hardest hit by economic adversity, especially now.

The programs have been successful, but will need an extension because the conditions we are seeking to address were the result of decades of under-investment and will take some time to address.

Empowerment Zones (EZs) and Renewal Communities (RCs)

Empowerment zones (or EZs) and renewal communities (RCs) were developed by Congress to target distressed communities with high poverty and unemployment, and use a combination of tools to begin to reverse the decades of neglect in these communities. There have been three separate rounds (in 1993, 1997, and 2000) in which the Congress has authorized the designation of empowerment zones, designed to spur employment and economic revitalization in the distinct areas of unemployment and poverty.

The first six of the current 30 urban empowerment zones were authorized in 1993 and designated in 1994. They were created to establish an initiative that would rebuild communities in America's poverty-stricken areas through incentives that would entice businesses back to the inner cities.

In 1997, Congress authorized a second round of designations, which resulted in the designation of 17 additional zones. In 1998 a round of 20 (Rural Round II) enterprise communities (ECs) was designated, but were not provided any tax incentives.

Finally, the 2000 Community Renewal Tax Relief Act authorized the designation of 8 urban and 2 rural 'Round III' empowerment zones, and created a new designation of "renewal community" (RC) that offered a different set of incentives to spur economic growth and housing and to create jobs. Round III EZs and the RCs were officially designated in 2002.

From Round I in 1993 to Round III in 2000, the exact mix of incentives have changed, as each new round was designated, and administrative funding that was provided in the initial designations was not included in Round III zones and communities.

### Establishment of UMEZ

As many of you know, the Upper Manhattan Empowerment Zone is one of the first six Empowerment Zones established - - through legislation drafted by Congressman Charles B. Rangel - - in 1994 to revitalize distressed communities by using public funds and tax incentives as catalysts for private investment.

Our initial 10-year designation was accompanied by a federal grant of \$100 million. Unique in the nation, the Governor of New York State and the Mayor of the City of New York each matched the federal funding commitment, creating a total investment pool of \$300 million. Of that pool, \$51 million was designated for the Bronx Overall Economic Development Corp., leaving \$249 million for investment in Upper Manhattan.

UMEZ began operations on February 14, 1995, and made its first round of grants and loans in October 1996. In the years since, the Upper Manhattan Empowerment Zone has invested over \$223 million in the neighborhoods north of 96th street, catalyzing one of the most impressive reinvestment initiatives in urban America and revitalizing Harlem, East Harlem, Washington Heights and Inwood.

Legislation enacted in 2000 extended UMEZ's operations through December 2009. This provided a five year window of opportunity to create the maximum benefits for residents of Upper Manhattan.

### UMEZ ACTIVITIES:

The \$223 million, I previously mentioned, includes \$71 million in business loans, \$95 million in grants and \$57 million in bonds.

I'm also pleased to note that we have leveraged an additional \$900 million in private capital, while creating over 9,000 jobs.

UMEZ's focus is on four primary areas: commercial loans; small business investment; cultural investment; and workforce development.

One of our major commercial loans will soon pay dividends in the area of job creation with the opening of the East River Plaza Mall early next year.

UMEZ provided a \$15 million loan and \$40 million in triple-tax exempt empowerment zone bonds to help create this multi-level 500,000-square foot retail facility.

During the construction phase, the project has created over 1,000 construction jobs and it is estimated that the mall, with its various businesses, including a *Costco*, *Target* and *Best Buy*, will generate over 1,700 permanent, full-time jobs.

On a smaller scale, we provide business loans between \$50,000 and \$250,000 for start-up and/or expansion to qualified entrepreneurs in Upper Manhattan.

In terms of non-profit investment, through our Cultural Industry Investment Fund, CIIF, UMEZ provides support to cultural organizations that use the arts as a tool for economic development, job creation, and growth of cultural tourism within the Zone.

CIIF makes direct investments to nonprofit arts and cultural organizations. Investments focus on assisting organizations with capacity building, organizational development and sustainability.

As you can see, UMEZ, through its many investment strategies and initiatives, has positively impacted Upper Manhattan in many ways.

### Syracuse Empowerment Zone

One can also look to UMEZ's neighbor to the north, the City of Syracuse, which was designated a Round 3 Empowerment Zone in 2002.

Typically, EZs have an area that is a brownfield or industrial site that can be marketed and broadly redeveloped by bringing in a major employer or facility.

In Syracuse, it had three such sites - - the Hancock Airpark, the Electronics Park and the former GM Fisher Guide Plant site - - that the community worked to redevelop and, hence, create jobs, with very significant success.

The Syracuse EZ brought in companies like Lockheed Martin and ICM Corp., as well as investment by GM. Together, the three sites have created over 2,400 jobs. This is just a part of what the Zones have been able to accomplish.

### Need for Multi-Year Extension

I am pleased to note that Representatives Artur Davis and Rodney Alexander, joined by Members of the Ways and Means Committee, including representatives Higgins, Lewis, Schwartz and Kind, have introduced and supported HR 1677, which is a four year legislative effort that would extend both the EZ and RC designations.

It would also improve and refine the existing tools we already have to address unemployment, financing challenges, and economic development in the Zones and communities.

Moreover, I'd also like to note that Representative Maffei has introduced HR 3500, which includes several refinements, a robust extension, as well as additional changes.

These are all proposals which we strongly support, and look forward to working with Congress to implement them.

We need an extension and urge Congress to consider if a multi-year extension is achievable, as economic development, investment and the commitment required to change a community, certainly requires more than a promise of one year of incentives.

Furthermore, any significant capital project involves building periods often exceeding one year. This would make it almost impossible to promise incentives if the completion date is after the benefits sunset.

#### Need for Improvements and Refinements to Existing Tools

We also need to refine the tools we give these communities. Some have not worked as well as intended and could be modified to be more effective.

Other proposals in the bills I mentioned are designed to use existing incentives in creative ways to address serious credit and financing challenges.

This is a problem in good times, but an absolute barrier to growth and opportunity in the current environment.

Finally, we would fully support additional data to demonstrate effectiveness of the programs, as well as provide metrics to measure the programs. The GAO has noted they don't have the broad data they would like to have to assess the programs, and we agree. The IRS has provided some data recently to HUD that shows that the usage of wage tax credits is rising on a strong trend line.

Speaking from the perspective of someone who administers an EZ, we want to know how we are doing, and we want to know where we need to focus our efforts.

Better data - - in the form of reporting of the tax credits down to a zip code or zip+4 level - - could help us determine use of the incentives.

In conclusion, we hope to work with Congress to extend the programs as long as possible.

We also hope to give the programs the tools needed to address the challenges of poverty and unemployment - - both of which remain significantly high, especially in the current economic climate.

Thank you.

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