FIELD HEARING ON CREATING MORE OPPORTUNITY AND PROSPERITY IN THE RUST BELT

HEARING

BEFORE THE

SUBCOMMITTEE ON TAX

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

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United States House Committee on

Ways & Means

CHAIRMAN JASON SMITH

FOR IMMEDIATE RELEASE CONTACT: 202-225-3625
May 13, 2024
No. TAX-04

Chairman Smith and Tax Subcommittee Chairman Kelly Announce Subcommittee Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt

House Committee on Ways and Means Chairman Jason Smith (MO-08) and Tax Subcommittee Chairman Mike Kelly (PA-16) announced today that the Subcommittee on Tax will hold a field hearing to examine the impact and benefits of Opportunity Zones and other pro-growth small business tax policies. The hearing will take place **at 4:00 PM (EST) on Monday, May 20, 2024, at the Warner Theatre** in Erie, Pennsylvania.

Members of the public may view the hearing via live webcast available at https://waysandmeans.house.gov. The webcast will not be available until the hearing starts.

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

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record can do so here: WMSubmission@mail.house.gov.

Please ATTACH your submission as a Microsoft Word document in compliance with the formatting requirements listed below, **by the close of business on Monday, June 3, 2024**. For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission but reserves the right to format it according to guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Please indicate the title of the hearing as the subject line in your submission. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

ACCOMMODATIONS:

The Committee seeks to make its facilities accessible to persons with disabilities. If you require accommodations, please call 202-225-3625 or request via email to WMSubmission@mail.house.gov in advance of the event (four business days' notice is requested). Questions regarding accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the Committee website at http://www.waysandmeans.house.gov/.

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CREATING MORE OPPORTUNITY AND PROSPERITY IN THE AMERICAN RUST BELT

MONDAY, MAY 20, 2024

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TAX,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Subcommittee met, pursuant to call, at 3:59 p.m., at Warner Theatre, 811 State Street, Erie, Pennsylvania, Hon. Michael Kelly [Chairman of the Subcommittee] presiding.

Chairman KELLY. Welcome to the Ways and Means Subcommittee Field Hearing on Opportunity Zones, Tax Cuts and Jobs Act, and the Subcommittee will please come to order.

Welcome to Erie, Pennsylvania. And I say this to my colleagues who are up here at the desk; I don't think they expected to see this type of a turnout. This is incredible. So I see Senator Laffa (?). We're used to this type of turnout anytime we get together, right? Brad. Everybody's here with us.

So listen, our team is very excited to have you here today for the Field Hearing on the success story of Erie's Opportunity Zone and how this Committee can create opportunities for Erie—in areas such as Erie to thrive in the Rust Belt and throughout the country.

Thank you, Chairman Smith, and your team, for all your hard work that you've done these last few months to bring this committee to western Pennsylvania. I also want to take a moment to thank all those in this community who have helped my team and I make this event such a success. Without your efforts, none of this could be done. You're all the epitome of what makes Erie thrive, and we are here today because of your dedication to protecting and revitalizing this community.

For those of you unfamiliar with Erie, Erie residents are proud of their rich history. In the 1600s, the Eriez Indians first settled on the lake shore. The French later controlled the region, building a fort on Presque Isle, which they would later play a pivotal role in the War of 1812. Lake Erie served as a hub for the U.S. Navy's fleet. The Brigs *Niagara* and *Lawrence* helped secure victory in the 1813 Battle of Lake Erie. The reconstruction Oliver Hazard Perry's Flagship, the U.S. Brig *Niagara* sails in the Lake Erie off the Presque Isle Bay, is responsible for Erie's nickname, The Flagship City.

Now, after the war and through the 1900s, Erie grew rapidly with busy rail lines and ports. Manufacturing jobs attracted waves of immigrants to the northwest corner of Pennsylvania. The population of Erie peaked in 1960 with 140,000 residents. Like many areas in the Rust Belt, Erie experienced a loss of good-paying manufacturing jobs and suffered perpetual population decline.

Today, Erie's population sits at just around 90,000 people. The downtown zip code, 16501, became home to one of the poorest zip codes in the United States. But as I mentioned, Western Pennsylvanians are proud of our history and have deep pride in the area where we live, with many folks born and raised in these towns and choosing to raise the next generation right here in Erie, we have a vested interest in making our communities thrive like they did in our parents' and grandparents' generations.

It was recently stated that Erie is a city with a can-do attitude, great work ethic and a true sense of community and family. Because of this, Erie community leaders came together to begin the revitalization efforts. With the help from key stakeholders and pivotal leaders of the community, the Erie Refocused plan took shape and the downtown—Erie Downtown Development Corporation began their work through property development in the summer of 2017. Major employers in Downtown Erie, including Mr. Tom Hagen with Erie Insurance, local universities and the city's top hospitals, partnered together to provide the initial funding to launch investment and development.

Back in Washington, a bipartisan group of members, led by former representatives Pat Tiberi and Ron Kind, and Senators Tim Scott and Cory Booker, introduced the original Opportunity Zone legislation. This legislation, later added to the Tax Cuts and Jobs Act, had nearly 100 bipartisan sponsors, which is hard to do with the government we're in today. Opportunity Zones were designed to provide tax incentives that encourage long-term private capital investment to revitalize low-income areas.

The Opportunity Zone program was able to facilitate the type of investments that would best serve the community's needs. With the new Opportunity Zone legislation and Tax Cuts and Jobs act, investors turn to Erie. After years of work and leadership of the Erie Downtown Development Corporation and local stakeholders, Erie has welcomed 110 new residential spaces, created space for 25 new businesses, restored eight historic properties, revitalized over 100,000 sqft. of commercial space and established a grocery store in what was previously designated a food desert.

Erie Downtown Development Corporation stakeholders have leveraged $40 million in private capital into a $115 million investment throughout the downtown area Opportunity Zone, but our work on Opportunity Zones is not yet finished.

Now, I'm proud to lead the Opportunity Zones Transparency, Extension and Improvement Act with my colleagues, Representatives Dan Kildee, Carol Miller and Terri Sewell. This legislation strengthens the Opportunity Zones with reporting requirements along with expanding incentives to help those communities that need it most. Last year, the Ways and Means Committee passed the Small Business Jobs Act, which included these reporting requirements, as well as new Rural Opportunity Zone program that will revitalize struggling communities in our heartlands; a way to ensure cities and towns, regardless of their population, can benefit from this legislation.

I look forward to working with others on these bills and other Opportunity Zone legislation as we hand into 2025. Additionally, we have seen on this Main Street in Downtown Erie that success extends to the businesses beyond downtown. Manufacturing has been a large part of Erie's history and employs 25 percent of this community. These jobs, especially those in family-owned businesses, are the backbone of this community.

This is why the Ways and Means Committee have been committed to extending and expanding pro-growth tax policy, like immediate expensing for R&D and 100 percent bonus depreciation, so we can give companies the tools they need to invest in their factories, their equipment, and most importantly, their workers. This will allow for Americans to remain more competitive in the global economic economy and keep folks on the job right here at home.

Finally, I'm happy to have this panel of witnesses with us today to testify on the success of Opportunity Zones. The impact in this community, as well as other tax provisions that impact the manufacturing industry in the Erie Community.

Before I turn this over, I think that that too often people have talked about Erie in the past tense. And for those of us that are familiar with Erie, know we would never, ever, ever give up on who we are, what we are and who made us what we are. Opportunity Zones became something that we never expected to have happen. Yet, Erie embraced it right from the beginning and has turned itself around.

This is an incredible tribute to this community, the people who live here, the people who work here, and the people who came here to begin with—to start a family and to have a strong community.

Now I'm privileged to have with me several of our Members. And now it is my honor to recognize the General Lady from Wisconsin, Ms. Moore, for her opening statement. Ms. Moore.

Ms. MOORE of Wisconsin. Thank you so very much, Mr. Kelly. Thank you for inviting us to this beautiful community; another great place on the Great Lake. I hail from Milwaukee, Wisconsin, and Mr. Hawkins, I don't think Cleveland is a mistake on the Lake. I do think that while we talk about this being the Rust Belt region, we should just reimagine it as we're doing here today, and call it the Fresh Coast. I think we're going to see a lot of immigration to this area because these Great Lakes are a great, hidden secret, not only to the United States, but to this world.

I have enjoyed my visit here in Erie. I want to thank Mr. Whiting for having lunch with us today. I was listening, although my ears are not as good, to try to catch some of the other just subtle sort of nuances. I know that you have great testimony here today. And of course, Mr. Hawkins, nice to see you again. You're the power behind the throne. And just really want to congratulate Senator Scott and my own Senator, retired Representative Ron Kind, for introducing this and pushing us to this point where we can look at how to renew it and how to improve it. It's really obvious that it's hard to track the impact of Opportunity Zones, given the lack of reporting requirements and transparency by investors.

That holds true in Milwaukee, Wisconsin, but I'm aware of some of the important investments that have occurred in my own district. I just hope you can hold on and I can share that with you.

For example, the Good City Brewing Company was one of the first companies in the region to use the federal Opportunity Zone program, which attracted investors to bring cash into a deal in the facility in the Century City Business Park.

The Century City Business Park is a 44,000 square foot empty space and a building that was the headquarters of the old A.O. Smith factory, which at one time employed 30,000 people who lived in, what is now, the inner city of Milwaukee. And then there was Talgo's railcar refurbishing facility, the second tenant. That was good news.

Now, the Central City Business Park was in a real tough part of the neighborhood. The entire area is in dire need of rehabilitation. So, it wasn't a surprise to me that Milwaukee had to use public funds to kind of bail out the businesses, but that was only temporary. We can boast that the Century City Building, located on the Northwest side is 100 percent leased and occupied. Just last month, the Craft Beverage Warehouse announced that it's looking to develop a new facility in the business firm.

That said, I'm also aware of the opportunity projects funded that I wondered whether they're the best use for funds for the community, such as some of the condo projects that catered to higher incomes.

So, that's just a taste of what we're seeing in Milwaukee. To the witnesses here today, thank you for coming. I look forward to hearing more of your testimony. Now, Mr. Chairman, as we explore the Opportunity Zone it's important to be clear eyed about what we're talking about here. The tax benefit conferred on taxpayers who invest in qualified opportunity funds are tax benefits for the rich. Now, in fact, the Joint Committee on Taxation found that the average income for qualified opportunity fund investors, nearly $1.1 million a year.

Now, I know that you can start rolling your eyes, especially the Chairman of the full committee and say, here we go again, these liberal democrats, about going on about tax cuts for the rich, but I'm going to surprise you here today, Chairman. I get it, that so many parts of the country, Erie being one of them, Mr. Hawkins, need capital and private investment.

I can understand why we might need a program to encourage that kind of private investment in areas where the return on capital might not otherwise be so great. And even though I know people are looking for capital, and look for people who need money, you're not going to hear me say these are tax cuts for the rich.

I don't have unlimited time. I'm just a Ranking Member here, but I just need to make one last point, Mr. Chairman, and that is that I think that we just need to work further to make sure that there's a connection between enriching the richest investors and making sure that there's a real solid public purpose for this funding, because this is being funded by taxpayers.

And so I just want to say before I go, I got pages to go, but like Drake would say, and I'm the Ranking Member here today, so I take certain privileges and, you know, I sit on that lower—in D.C., but I'm like Drake, I started from the bottom and now I'm here. And I yield back.

Chairman KELLY. Thank you, Ms. Moore. That's a pretty good testimony—good opening remarks. I will say this though, if I may. Because I remember when we were doing Opportunity Zones and one of the complaints was, you were only concerned about the wealthy people. And my answer to that was, well, they have the money to invest using the core tax dollars to invest where nobody else would invest, because it didn't look like a promising thing.

We encouraged people to invest in their communities, to make a change in a community that had been forgotten, that pushed aside, and nobody was going into. This, by the way, was able to bring those folks to say, you know what, I will take a chance. I will invest in their, using not taxpayer funded revenues, but using private dollars.

So with that, the Chairman of the Ways and Means Committee, Mr. Smith.

Chairman SMITH. Thank you, Chairman Kelly. Let me first begin by thanking you for hosting us here in your beautiful city, and also to the Warner Theatre for hosting us today. Beautiful, beautiful. And I want to thank each and every one of you for coming out. I believe it's extremely important to go outside of Washington and see real America and see how we can make policy that benefits rural America, but also see policies that does not benefit real America.

I'm also sure I speak for all who participated, how gratifying and informative today's tour of the Erie Opportunity Zones was in helping paint a fuller picture of the true value of the program. The Ways and Means Committee is in Erie, Pennsylvania, because it is home to a true American success story that was born out of the hard work of the local community and common sense economic policies.

Erie was once home to the poorest zip codes in the nation, but that changed in part because of the 2017 Trump tax cuts that not only lowered the tax burden on low-income families and raised wages, but also made critical investments in the strength and vitality of local communities through the Opportunity Zone program established under the law. Opportunity Zones have sparked a flood of private investment in communities most in need of an economic boost, and in Erie, over $750 million has flowed to support the local community.

Again, those are private sector dollars, not federal funds. The Ways and Means Committee is working to build on the success of the Trump tax cuts, and that includes the Opportunity Zones program. In June of last year, the Committee approved the Small Business Jobs Act, legislation to incentivize investment in America's Main Street businesses to make it easier for them to grow and create jobs, while also expanding the Opportunity Zone program to incorporate more rural communities.

A key piece of that legislation was authored by our Tax Subcommittee Chairman Kelly, and includes important reporting requirements to ensure Opportunity Zones are being set up in accordance with the law and delivering on the promise of the policy.

At the Ways and Means Committee, we have made substantial progress towards supporting Main Street businesses that are building stronger communities. There is more to be done, a lot more to be done. We are in Erie to hear your thoughts about the importance of these tax provisions because it's clear President Biden isn't listening. President Biden has pledged to let the Trump tax cuts expire.

We know what that means for local economies like Erie. Starting in 2026, the average family of four in Erie, earning just shy of $60,000 will see their taxes go up by over $1,200 per year upon expiration of those 2017 tax cuts. We know the small businesses that are the engine of growth in our Opportunity Zones will face a top rate, well over 40 percent. The families who earn the paychecks, raise their families and help keep the stores open on Main street will see their child tax credit and their guaranteed tax deduction slashed in half.

We cannot allow for the success that has taken hold in Erie in communities all across our country to be rolled back or abandoned by letting the tax policies that have done so much for so many expire. Members of this Committee are already working with our tax teams to protect families and small businesses from losing the Trump tax cuts next year. One of those tax teams, chaired by Representative Kelly, is the Community Development team, which will focus on how we can encourage and incentivize more main street investments, expand housing opportunities and support small communities so they can grow and meet the needs of families where they live and work. I want to thank the witnesses for taking time out of your busy schedule for being here today, and I also want to make sure that we have the opportunity to hear from everyone in the audience as well. There will be clipboards that you will see that will be passed out for everyone to share with us your concerns and ideas.

We will enter into the official hearing record and take those back with us to Washington. So please get a clipboard, write down your information, and it will be submitted into the official record. It is a pleasure to be in Erie, Pennsylvania. And it's a pleasure to be with you, Mr. Chairman.

Chairman KELLY. Thank you, Chairman. Now I'm going to introduce our witnesses, Mr. Drew Whiting, who is the CEO of the Erie Downtown Development Corporation. Shay Hawkins is President and CEO of Opportunity Funds Association. Jason Spore is Founder and Owner of Ippa Pizza (Napoletana). Tom Tredway is President of Erie Molded Packaging. First of all, thank you all for taking time out of your lives here with us today, because it's important for the community to actually hear the people who are on the ground working in these programs and how it works for you. So thank you for doing that today.

Now, your written statements will be made part of the hearing record and each of you will have five minutes to deliver your opening oral remarks.

Mr. Whiting, you may begin, please.

STATEMENT OF DREW WHITING, CEO, ERIE DOWNTOWN DEVELOPMENT CORPORATION

Mr. WHITING. Chairman, Ranking Members, it's a privilege to sit in front of you on behalf of the Erie Community and the Erie Downtown Development Corporation to thank you for providing a legislative catalyst that has changed the trajectory of our community for the better.

The story of Erie over the last half century is familiar to anyone acquainted with the Greater Rust Belt region. A once-proud manufacturing center of the Great Lakes with a thriving middle class became a shell of itself over several decades. Community decline, often measured and communicated in terms population loss and other traditional economic metrics, is actually felt through the despair and the eventual apathy of its citizenry. A little less than a decade ago, Erie's private sector leadership, determined to reverse course, began designing a place to shock our city back to life.

Opportunity Zone legislation passed as part of the Tax Cuts and Jobs Act, provided our stakeholders a major tool necessary to attract investment required to execute on that plan. Today, we celebrate Erie as one of the best examples of OZ-enabled transformation, the beneficiary of federal economic development catalyst that has served as a model for many other communities across the country.

In December of 2021, after living in Chicago for more than 14 years, my wife and I moved Erie to be closer to family. Hers in Erie, mine in Buffalo. We were working remotely, had no real plans to be involved in this community, but after landing in town, that notion very quickly changed. It was less than a week before we met new friends at the EDDC's Flagship City Food Hall, joined Radius, a longstanding pioneering co-working community and were introduced to members of our business community.

From the bay front to the tracks, I noticed scaffolding, cranes, announcements of new investments and projects throughout the community. More importantly, I could feel it. I could feel the buzz, the energy that can only be described as a feeling of optimism and hope about the direction of this community. That feeling led us to immerse ourselves in the community. Before we were here for even a year, we purchased an anchor building on State Street with the intent of contributing to the factor—to the fabric of our new home in a positive way. That renovation has been done through an Opportunity Zone fund.

Now, as the CEO of Erie Downtown Development Corporation and as a fully-converted believer in the potential of this city, I've joined the deep ranks of Erie evangelists who tout our quality of life, reasonable cost of living, amenity-rich downtown and resources that we possess on our Bayfront and with Presque Isle State Park and beyond.

While it's difficult to measure community pride, I can tell you that despite the hits this community has taken, that pride is coming back. Look behind me. A major reason for that is the forward progress that you all saw today, and that was enabled by your Opportunity Zone legislation. Established in 2016 to revitalize Erie, the Erie Downtown Development Corporation, under the leadership of private and local stakeholders and John——

Chairman KELLY. Excuse me, the chart's over there because I think it's important to see the return on that investment.

Mr. WHITING. Oh, Yeah. Spent $27 and-a-half million of equity investment in the Erie Downtown Equity Fund, which was leveraged to invest in $113 million of development over the next seven years. Phase One, as it's termed, nearing completion later this month, has resulted in development progress and attraction of external investment in a fraction of the anticipated timeframe, primarily because of the catalytic impact of opportunities on legislation.

The chart you see over here says volumes. It's also important to note that beyond that, we've attracted over $100 million of other investment into this town from people that are not from Erie, that have no connection to this place. Ms. Moore, we are happy to report the above to you at any time, and under a more stringent reporting regime, we're happy to do it in even more detail.

Ms. MOORE of Wisconsin. And maybe closer up, too.

Mr. WHITING. Maybe closer up.

In addition to that, other development money that's come to town, we've also seen companies like Truck-Lite, Kyocera come into town. National Fuel make downtown their continued headquarters. They've decided to remain or move operations to Erie based on the positive progress we're making downtown and the way that progress is radiating outside of that.

Because of the progress we've made in Erie, I received frequent visitors and calls from thought leaders in the economic development realm. Though each has its own approach, most convey some version of hey, you've done a great job, but do not stop here. You need to do more.

As you can see behind me, with a room full of Erieites (sic) showing up to let you all know that we appreciate the work that you've done for us, we also want to let you know we are committed to doing more. We do not view our work as an effort that will last a decade. We expect we will be working for a generation or more to fully reverse several decades of decline. Thus, it's crucial that OZ benefits and other tax policy and expansion tools are continued so that we can progress as a region.

Our story is not finished. We have plenty of work to do. We remain steadfast in our commitment to our mission. We've never been more motivated than we are today. Community pride in Erie is surging. A community now richer with hope and optimism for the future. Thank you for working in a bipartisan fashion to enable our work over this past decade and for many years to come.

[The statement of Mr. Whiting follows:]

WRITTEN STATEMENT

FOR: US House of Representatives, House Ways and Means Committee, Taxation Subcommittee – OZ Field Hearing – Erie, PA

BY: Drew Whiting, CEO of the Erie Downtown Development Corporation and Managing Principal, Tenth and State, LLC

Chairman and Ranking Members of Congress:

It is a privilege to sit in front of you on behalf of the Erie, PA community to thank this Committee for providing a legislative catalyst that has changed our trajectory for the better.

The story of Erie over the last half century is familiar to anyone acquainted with the greater Rust Belt region. A once proud manufacturing center on the Great Lakes with a thriving middle-class population, became a shell of itself over several decades. Community decline, most often measured in terms of population loss and in traditional economic terms, is most accurately reflected through the despair and eventual apathy of its citizens.

A little less than a decade ago, Erie's private-sector leadership, determined to save our City, began designing a plan to shock our City back to life. Opportunity Zone legislation, passed as part of the Tax Cuts and Jobs Act, provided our stakeholders the tools necessary to attract investment required execute on that plan.

Today, we celebrate Erie as among the best examples of OZ-enabled transformation, the beneficiary of a federal economic development catalyst that has served as a model for many other communities across the country.

Our work is far from over. It is of the utmost importance to communities like Erie that the Opportunity Zone benefits continue into the future, as the scale of investment and time needed to realize sustainable recovery will span a generation.

A CONVERT IS THE BEST EVANGELIST

In December of 2021, after living in Chicago for 14 years, my wife and I moved to Erie to be closer to family, hers in Erie and mine in Buffalo. We were working remotely and had no plans to be involved in the community. After landing in town, that notion quickly changed.

It was less than a week before I'd met new friends at the Flagship City Food Hall, joined Radius, our long-standing and pioneering coworking community, and was introduced to members of the business community working to attract and invest in startups to Erie.

From the Bayfront to the tracks, I noticed scaffolding, cranes, and announcements of new investments and projects throughout the community. More importantly I could feel it. I could feel through conversations with members of our creative community, the chamber and others in the business community, and in the buzz or energy that can only be described as feeling of optimism and hope about the direction of the community.

That feeling led us to immerse ourselves in the community, and before our first year in town was up, we'd purchased an anchor building on State Street with the intent of contributing to the fabric of our new home in a positive way. The purchase of the building and financing of the eventual renovation has been done through an Opportunity Zone fund.

Within months of embarking on our project at Tenth and State, came the opportunity to lead the EDDC. In the span of 18 months, I went from a remote-work lawyer dedicated to lowering my handicap on the golf course, to starting a business downtown and dedicating my life to Erie's recovery effort.

As a fully converted believer in the potential of this City, I have joined the deep ranks of Erie evangelists, who tout our quality of life, reasonable cost of living, amenity rich downtown, and the resources that we possess in our Bayfront, Presque Isle State Park and beyond.

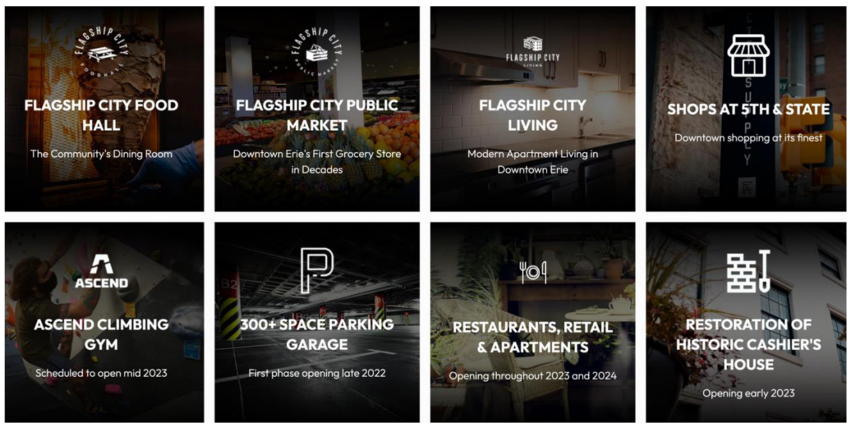
While it is difficult to measure community pride, I can tell you that despite the hits that this community has taken, that pride is coming back, and a major reason for that is the signals of forward progress that are the direct result of Opportunity Zone legislation.

THE ERIE DOWNTOWN DEVELOPMENT CORPORATION (EDDC)

Established in 2016 to revitalize Erie, the Erie Downtown Development Corporation, under the leadership of local private stakeholders, embarked on a mission to revive downtown Erie.

$27.5 million of equity investment into the Erie Downtown Equity Fund, was leveraged to invest in $113 million of development over the next 7 years. "Phase I," which is nearing completion later this month, has resulted in development progress and attraction of external investment in a fraction of the anticipated time, primarily because of the catalytic impact of Opportunity Zone legislation.

EDDC's investment has led to the following:



As we embark on Phase II, we aim to raise additional funds with the Opportunity Zone benefits as a key incentive for our investors. With that funding, we will address existing problem areas adjacent to our footprint with additional development. We are also shifting gears to establish a CDFI, through which we will use a revolving loan fund to empower other developers to finance new projects, with the goal of scaling development into the neighboring main streets and neighborhoods over the coming decade.

In addition, we are taking a leadership role in the small business community, many of which operate in our footprint, to ensure that small businesses in Erie have access to the resources, support and funding to grow and contribute to our local economy and beyond.

IMPACT OF EDDC PROJECTS

While some measures of progress are difficult to quantify, others are more readily observed and defined.

The Economic Data

The chart below highlights some of the economic impact data of the first phase of the EDDC's Opportunity Zone enabled development in the core of Downtown Erie.

	When Acquired	Post-EDDC Investment
Investment	$9,850,000	$113 million
Square Footage	75,000 (utilized) 110,000 (vacant) 185,000 (total)	477,000 (utilized)
Property Valuation	$4,223,500	$64 – $68 million
Taxes Paid	$176,185	$2,278,400 – $2,420,800
Businesses	16	23
Employees	100	250 – 300
Residential Units	14	108

It is important to note that the above does not reflect that all businesses are locally owned and operated, that residential units are fully occupied at market rental rates, and that crime in Erie's downtown has been reduced as a result of the improved assets in our core.

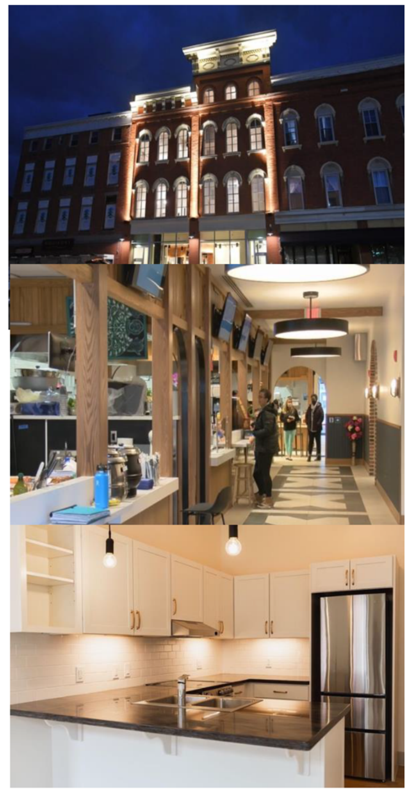
In addition to the above, we have seen an influx in investment in other anchor buildings on State Street by groups that point to the EDDC and improved Bayfront as the catalyst for their investment. In total, that investment and the developments subsequently started over the last year alone total over $110 million, and will have their own impact similar to the above, if not greater. In addition, in the last two years alone, ValueMomentum, Kyocera, Truck-Lite and National Fuel have decided to remain in or move operations to Erie based largely on the positive progress we are making downtown, and the way that progress is emanating out to our region.

The Visual

Decades of declining population and a suffering economy led to a downtown full of assets approaching or aptly categorized as blighted. The physical transformation over the last 5 years has been remarkable.

Before:

After:



BUILDING TOWARD THE FUTURE WITH OPPORTUNITY ZONES

Because of the progress we've made in Erie, we frequently receive visitors who are thought leaders in the economic development realm. Though each has its own approach, most convey some version of – *You've done a great job, but don't stop here. Do more.*

In Erie, we are committed to doing more, and have many new projects in various stages of development, which will continue to transform our community, with the goal of a sustained recovery on the horizon.

We do not view our work as an effort that will last a decade. We expect that we will be working for a generation to fully reverse several decades of decline. Similarly situated peers and experts in the field tend to agree with that assessment.

Thus, it is crucial that Opportunity Zone benefits are continued so that we are able to progress as a region. As a tool, Opportunity Zone legislation encourages investment from impact-oriented investors who will have more opportunity over the coming years. That opportunity will enhance our ability to share Erie's recovery story and contribute to the growth of other regions who wish to emulate our recovery.

END NOTE

Our story is not yet finished, and we have plenty of work in front of us. We remain steadfast in our commitment to our mission, and we have never been more motivated than we are today. Community pride in Erie is surging, a community now richer with hope and optimism for the future. Thank you for working in a bipartisan fashion to enable our work over this past decade, and for many years to come.

Sincerely,

Drew Whiting
CEO
Erie Downtown Development Corporation
Managing Principal
Tenth and State, LLC

Chairman KELLY. Okay.

Thank you. I appreciate it, Mr. Whiting. Now, we recognize Mr. Hawkins. Mr. Hawkins, you are now recognized. I will tap the mic when it gets down to where you're at 30 seconds left to go. As I know you all have a lot to say.

I hate to shut everybody off because it's your day and it's our purpose of being here, to listen to you, but Mr. Hawkins, you are recognized five minutes.

STATEMENT OF SHAFRON "SHAY" HAWKINS, PRESIDENT AND CEO, OPPORTUNITY FUNDS ASSOCIATION

Mr. HAWKINS. Well, Chairman Kelly, Ranking Member Moore, Chairman Smith, thank you for having me today. This is my 7th time testifying before Congress, but my first time testifying before the Tax Subcommittee. So I really thank you and it's a special privilege for me to be testifying again in the heartland as I was born and currently reside just an hour and-a-half west of here in Cleveland, Ohio. And I appreciate your comment, Representative Moore, that Cleveland is not a mistake on the Lake. It's part of that freshwater kingdom you described, and so we are—I really appreciate you allowing me to be a part of this.

So I am Co-Founder and President of the Opportunity Funds Association, a trade association whose members are entrepreneurs, investors, developers and fund managers operating in Opportunity Zones. Opportunity Zones are arguably the most successful community development policy in American history. So this afternoon, I would like to discuss how Opportunity Zones are targeting private investment in areas of the country that have been de industrialized, and how tax policy can be used to build domestic supply chains, incur free investment, and renew prosperity in places like Erie, but also in the often overlooked rural communities across this nation.

And so, you know, prior to Cofounding OFA, I served as majority staff director the Senate Finance Subcommittee on Energy, Natural Resources and Infrastructure, and as tax counsel to Senator Tim Scott, where I helped champion the Investing and Opportunity Act, which became opportunity centers. Analysis from the Economic Innovation Group, using data from recent studies at UC Berkeley and our Treasury Department, found that by 2020, OZ had already achieved unprecedented geographic reach and scale.

So just two and-a-half years after zone designation, nearly half—again, half, or roughly 3,800 communities across every state that receive investment, with those investments being among the highest-need communities in the U.S. And so how can Congress help to reinvigorate and bring prosperity to heartland?

Well, first of all, we need to urge President Biden to abandon plans for any tax increases. Working families are already seeing tightening budgets and higher prices. Over the past few years, our consumer prices have risen 19 percent. Forty percent for electricity, 30 percent for gasoline, 46 percent for car insurance, 51 percent and 30 percent—I'm sorry, 30 percent for baby food. And so adding to this, the Tax Foundation estimates that we would lose 788,000 full-time jobs and 2.2 percent of GDP if the President's fiscal year 2025 budget were enacted in his proposed budget.

And so, you know, first do no harm. In terms of Opportunity Zones, as Representative Moore indicated, it is critical, and perhaps the most important step that Congress can take to optimize sustainable growth and Opportunity Zones, we need to pass a bill adding reporting and transparency requirements, such as those found in the Small Business Jobs Act and those largely mirrored in Chairman Smith's opportunity Zone Transparency Expansion and Improvement Act. And so that is critical.

We also need to jumpstart our rural investment by allowing for intermediary investments in what are called feeder funds, which will enable more investment from smaller, more qualified opportunity funds in a fund to funds model that will enable smaller, regionally focused, impact-oriented funds that are more likely to invest in rural areas and also solve the problem that Representative Moore noted, with only large investors being involved in the process.

So we can solve that today. And lastly, we need to enact legislation, as my fellow witness noted, to extend this great policy. With that transparency reporting information will be able to better understand how Opportunity Zones are performing, and then you and Congress can tweak that to make this great policy even more effective. So I appreciate you having me today, and I look forward to hearing from my fellow witnesses and my discussion with you all.

[The statement of Mr. Hawkins follows:]

Testimony Before the House Ways and Means Committee Subcommittee on Tax

Shay Hawkins
President, Opportunity Funds Association

"Creating More Opportunity and Prosperity in the American Rust Belt"

May 20, 2024

Introduction

Chairman Kelly, it is a pleasure to be with you today and I thank you for your focused and consistent support for Opportunity Zones. This will be my seventh time testifying before Congress, but my first time testifying before the Subcommittee on Tax. It is a particular privilege to be testifying here in the industrial heartland as I was born and currently reside in Cleveland just over an hour away, so thank you for having me. I am the Co-founder and President of the Opportunity Funds Association (OFA), a trade association whose members are entrepreneurs, investors, developers and fund managers operating in Opportunity Zones. Through our members, we connect capital to overlooked areas improving lives, creating opportunities, and ensuring long-term economic growth.

Opportunity Zones are arguably the most successful community development policy in American history. So, this afternoon, I would like to discuss how Opportunity Zones are targeting private investment in areas of the country that have been deindustrialized, and how tax policy can be used build domestic supply chains, encourage reinvestment, and renew prosperity in Erie, as well as in our too often overlooked rural communities across the country. Further, I want to discourage crippling tax increases on businesses and workers that would undermine the historic progress made in the Heartland prior to the pandemic in shifting our supply chains from adversaries like China, minimizing minority unemployment, and raising incomes in places like Erie.

Prior to co-founding OFA, I served as the Majority Staff Director for the Senate Finance Subcommittee on Energy Natural Resources and Infrastructure and as Tax Counsel to Senator Tim Scott (R-S.C.) where I helped champion the Investing in Opportunity Act (cosponsored by many on this subcommittee) that became Opportunity Zones.

Analysis from the Economic Innovation Group using data from recent studies by UC Berkeley and the US Department of the Treasury found that by 2020, OZs had already achieved unprecedented geographic reach and scale. Just two and a half years after zone designation, nearly half (48%) of all zones—or roughly 3,800 communities across every state—had received investment, with those receiving investment among the highest-need communities in the U.S. on average. Further, OZ investment triggered a "large and immediate" increase in local development activity, as my fellow witnesses will attest, delivering an economic boost for surrounding communities and increasing home values while holding rents steady. Again, for emphasis; increasing home values while holding rents steady.

Key findings from these papers include:

- OZ investment reached approximately 3,800 communities from mid-2018 through 2020, representing nearly half (48 percent) of the total number of designated OZ communities nationwide. For comparison, it took 18 years for New Markets Tax Credit (NMTC) investments to reach an equivalent number of communities.
- OZ investment is going to communities that are substantially more economically distressed than the rest of the country. Ranked from lowest to highest levels of need, they average in the 87th percentile for poverty, 81st for median household income, and 80th for unemployment.
- Total OZ equity investment was at least $48 billion by the end of 2020. This capital was raised from roughly 21,000 individual and 4,000 corporate OZ investors and deployed into 7,800 Qualified Opportunity Funds.
- OZ designation caused a "large and immediate" increase in new commercial and residential development activity such that the likelihood of investment in a given month jumped by over 20 percent in designated tracts across 47 studied cities.
- Rather than crowding out local activity, OZ designations carried positive economic spillovers into neighboring communities and boosted development at a city-wide scale.
- In addition to boosting the supply of housing, OZ designations improved local home values by 3.4 percent from 2017 to 2020 with no observed increase in rents.

Helping Entrepreneurs Bring Prosperity to the Heartland

Urge President Biden to Abandon Plans for Tax Increases
Working families are already seeing tightening budgets and higher prices. Over the past few years, consumer prices have risen an average of 19.3%, eggs up 40.9%, electricity 29.3%, gasoline 46.3%, car insurance 51.7%, baby food 30.0%, and flour 38.3%. Adding to this, the Tax Foundation estimates that the changes proposed in President Biden's FY 2025 budget would reduce long-run GDP by 2.2 percent, wages by 1.6 percent, and cost 788,000 full-time jobs. Raising the corporate tax rate from 21 percent to 28 percent is the largest driver of the negative effects. Corporations don't really pay taxes. Workers pay taxes in the form of reduced wages, consumers pay taxes in the form of higher prices, and shareholders (including middle-class investors with 401ks) pay in reduced returns. The proposed tax hikes would be passed through and tacked onto the inflation tax struggling Americans already pay.

Make Opportunity Zones More Transparent
Perhaps the most important step Congress can take to optimize sustainable growth in Opportunity Zones is to pass a bill adding reporting and transparency requirements such as is found in the *Small Business Jobs Act* (HR3937), and largely mirrored in the *Opportunity Zones Transparency, Extension, and Improvement Act* (OZTEIA). HR3937 would enable Treasury to collect key information on the location of Opportunity Zone investments, the types of businesses and projects attracting investment, and the number of jobs created. This information will enable Congress to adjust the policy to further incentivize investment in areas remaining underserved and will demonstrate the viability of the policy as a community development tool.

Jumpstart Investment in Rural Communities

Investment in smaller cities and rural areas is much more likely to support operating businesses in contrast to the real estate investing we associate with dense urban census tracts. Allowing intermediary investments into "feeder funds" will enable more investments into smaller Qualified Opportunity Funds. A "fund-of-funds" model will help smaller, regionally focused, impact-oriented funds raise capital and overcome scale challenges with institutional investors. This model will also drive more investment into rural communities, making committee efforts to expand the OZ map to include more persistently poor rural places even more effective.

Extend the deadline for OZ investment

Both the Small Business Jobs Act and OZTEIA extend the investment and deferral period for qualifying investments. This change would recoup time lost during regulatory implementation and create a stronger incentive for investment in low-income communities.

Chairman KELLY. Thank you, Mr. Hawkins.

Mr. Spore, you're now recognized for five minutes.

STATEMENT OF JASON SPORE, FOUNDER AND OWNER, IPPA PIZZA NAPOLETANA

Mr. SPORE. I'd like to start today by thanking Subcommittee Chairman Kelly, Ranking Member Moore, Chairman Smith, and Members of the Ways and needs committee for allowing me the opportunity to comment today on the impact the Opportunity Zone in Erie, Pennsylvania. The policies that shape it and the investments made by organizations who invest have had on my business.

Ippa Pizza Napoletana was established in 2022 as a food truck with the central commissary about a mile and-half down the road. I set off on this venture with the hopes and dreams of creating some of the best pizza in the region; the nation really. Like any business first starting out, I had big goals. I have a mission, vision, values. Those all serve as my guideposts. Ultimately, I wanted to build something that my family could be proud of and that the Erie community could be proud of. I have a goal of supporting the local economy with purchase of my raw goods. More important is to build a culture inside of my organization where individuals who maybe didn't get the best start in life would find a place to work that would teach self-worth, leadership and growth both personally and professionally.

What started out as a dream in college when my mom actually laughed at me when I asked her to teach me how to make dough over the phone, turned into an obsession. So where did the name Ippa come from? It came from my son Colby when he was 18 months old and learning how to talk. That's what he said. That's the way that he said pizza. He'd reach for this guy and say, ippa, ippa, reaching for another slice. He's truly a boy after my own heart.

So I learned to make authentic Neapolitan pizza from a world champion pizzaiolo, or pizza maker, who runs two of the most acclaimed pizza restaurants in New York City. I took these learnings and I built a product serving naturally-fermented dough made in part from locally sourced wheat from Pittsburgh. We source garlic and heirloom tomatoes and cheese curd from local and regional farmers and producers when in season. We compost our organic scraps with a local company and donate the fresh compost back to farmers who then again regrow our vegetables. All this is done not because it's easy or cheap, but because it results in a better product.

We feel an immense sense of pride being one of the largest customers of each of these other small businesses and contributing to local supply chains. If we can be a part of another business's success story, it's a good thing, and JFK once said, a rising tide lifts all boats.

Like any small business, we faced challenges early. Specifically, we needed more employees and marketing. As almost a 50-year old trying to learn the intricacies of today's social media, you'll find out real quick why marketing is a four-year degree. I was also working and continued to work full time, so time management and allocation of resources had to be more efficient. We learned limitations that existed in our current operation. We knew that if were to become viable, we needed to transition into a brick and mortar operation as soon as possible. In short, we needed help.

Upon all these realizations, I simultaneously learned of a potential opening in the Flagship City Food Hall, right in the middle Erie, PA's Opportunity Zone. I began to understand what an Opportunity Zone was and how the investments made were truly a win, win, win for the businesses that invest in these depressed areas. The new business owners who touch the customers directly, like myself, and most important, the greater community that ultimately becomes a vibrant place to live, work and play.

The companies who invest, like Erie Insurance, UPMC, Gannon, Mercyhurst, Plastek, the Erie Community Foundation, AHN and Highmark, the Hagen family and all the local banks; they get deferred tax benefits. They get breaks on capital gains, tax breaks on capital gains, but it's not about that. What do they give? They give the citizens of Erie a new beginning, options to work, play and shop. They give the opportunity to make the community in which they choose to operate, great. They provide revitalization and make people want to work and live here, raise their families, visit on a vacation. And they give the opportunity for people like me to live the American dream.

Ippa Pizza Napoletana relocated to 22 North Park Row in January of 2024. Remember when I said we needed help? The professionalism and guidance by Drew Whiting, the President of the EDDC. Corey Cook in the back there, he's the Director of Operations. Mark Inscho, Director of Food and Beverage. Paula Gregory, the Controller, were invaluable and just what we needed through this transition. What about marketing? The help afforded by Ryan Hoover, the experienced director, was one of the biggest surprises. When Ryan's in the building, our business gets highlighted to the Greater Erie community, and we make money, which is the lifeblood of everything we're talking about today.

What about access to motivated employees and other business owners? Because of the groundwork laid several years ago, a transplant to Erie like me was able to grow fast and I'm proud to say that we now employ 12 employees, where we ran for a year and-a-half with only three, and we're still hiring. At Ippa, our story is just getting started.

So what happens if the tax provisions afforded investors in Opportunity Zones expire with no legislative action? I hope I've shown you what happens when this legislation is understood, appreciated and acted upon. Everyone in this room understands where we were in this community. 16501, one of the poorest zip codes in the United States.

A mentor of mine, Uncle B. once said, don't just come to me with a problem, bring a solution. One of the poorest zip codes. That's our past. Walk across the street and see the progress. You've heard the goals and the dreams and you see the action. And I'm not the only one. We're living the solution. With your help, we are fixing it. It's a win, win, win. Let's not go backwards. Take action. We will make Erie great.

Thank you for your time.

[The statement of Mr. Spore follows:]

Jason H. Spore
Founder and Owner/ippa Pizza Napoletana
22 North Park Row, located inside the Flagship City Food Hall, Erie, PA, 16501
814-449-9292 cell
Jason_spore2000@yahoo.com
ippapizza.com

MAY 20, 2024

I would like to start today by thanking Subcommittee Chairman Kelly, Ranking Member Moore, Chairman Smith, and members of the Ways and Means Committee for the opportunity to comment today on the impact the opportunity zone in Erie, PA, the policies that shape it, and the investments made by the organizations who invest have had on my business.

Ippa Pizza Napoletana was established in 2022 as a food truck with a central commissary about a mile and a half down the road from here. I set off on this venture with the hopes and dreams of creating some of the best pizza in the region…the nation. Like any business, first starting out, I have big goals. I have a Vision, Mission, and Values that serve as guideposts, ultimately to build something my family…and the Greater Erie community can be proud. I have a goal of supporting the local community such as farmers and distribution partners with my purchase of raw goods. More important is to build a culture inside my organization where individuals who maybe didn't get the best start in life would find a place to work that would teach self-worth, leadership, and provide opportunity not only paying a living wage, but also to grow personally and professionally. Our compensation plan is unique in the crowded and competitive restaurant sector. It is incentive based and rewards the behaviors we want. I want to create a business that builds character, a place where parents are proud to send their children to learn responsibility, leadership, structure, creativity, and teamwork.

Ippa started out as a dream when I was in college. It wasn't until then that I fully appreciated the quality food, specifically pizza, my mother could make! I still remember when I called her on the phone and asked her how to make dough…over the phone! She laughed! It was my professional career in medical devices working for some of the best organizations in the world that taught me what it means to collaborate, communicate effectively, bring products to market, and lead teams in pursuit of a common goal.

So where did the name 'ippa' come from? It came from my son, Colby, when he was 18mo old and learning to talk. That's the way he said 'pizza'. 'Ippa…ippa…' grabbing for another slice! A boy after my own heart! I learned to make authentic Neapolitan pizza from a world champion 'pizzaiolo' or pizza maker who runs two of the most acclaimed pizza restaurants in NYC. I took these learnings and have built a product serving naturally fermented dough made in part from locally sourced wheat from Pittsburgh, we grind into flour. We source garlic and heirloom tomatoes from several local farmers and when in season, mill those directly into our sauce. We buy curd regionally and stretch it into the mozzarella that covers our signature pies. We compost our organic scraps and waste with a local company and donate the fresh compost back to the farmers who grow our vegetables. All this is done not because it is easy, or the cheapest alternative…but because it results in a better product. We feel an immense sense of pride being one of the largest customers of each of these other small businesses and contributing to local supply chains. If we can be a part of other business's success story, it's a good thing. JFK once said, 'A rising tide lifts all boats.'

Like any small business, we faced challenges early. Specifically, understanding capital is limited and if not managed properly could mean certain doom for our budding empire. Thankfully the customers kept coming! We needed more employees if we were to grow…we started and ran for a year and a half with only three dedicated employees. Unlike many business owners starting out, I was also working and continue to work full time…so time management and allocation of resources had to be more efficient. We had to build systems early if it was to work. Despite being a largely mobile operation as a food truck, we knew that if we were to become viable we needed to transition to a brick-and-mortar operation. And then there was marketing! As an almost 50yr old, try learning the intricacies of today's social media! You will find out quickly why marketing is a four-year college degree! We learned the limitations that existed in our current operation. In short we needed help if our goals were to come to life.

Upon all these realizations I simultaneously learned of a potential opening in the Flagship City food hall, right in the middle of Erie, PA's Opportunity Zone. I began to understand what an opportunity zone was and how the investments made were truly a 'win-win-win' for the businesses that invest in these depressed areas, the new business owners who touch the customers directly, and most important the greater community that ultimately becomes a vibrant place to live, work and play. The companies who invest, like Erie Insurance, UPMC, Gannon, Mercyhurst, and Plastek get deferred tax benefits. They get tax breaks on capital gains. BUT...guess what they give...? They give the citizens of Erie a new beginning. Options to work, play, shop. They give the opportunity to make the community in which they choose to operate great. They give one of the few cities that borders a Great Lake the amenities it deserves to have. They provide revitalization and make people want to work and live here, raise their families here. Visit on vacation. And they give opportunity to people like me...and my employees...and our customers...to live the American Dream.

Ippa Pizza Napoletana relocated to 22 North Park Row in January of 2024. I can't begin to tell you how much the EDDC, who manages the projects in the Erie, PA OZ, has helped our business. Remember when I said we needed help? The professionalism and guidance by Drew Whiting, the President of EDDC, Corey Cook, the Director of Operations, Mark Inscho, Director of Food and Beverage, and Paula Gregory, Controller were invaluable and just what we needed thru the transition. What about marketing? The help afforded by Ryan Hoover; the Experience Director was one of the biggest surprises. When Ryan is in the building, our business continually gets highlighted to the greater Erie community...and we make money, the lifeblood for everything mentioned here. What about access to motivated employees and other business owners? Because of the groundwork laid several years ago, a transplant to Erie like me, was able to grow fast...and I'm proud to say we now have 12 employees and are still hiring! Business is booming and I look forward to continuing our pursuit of making great pizza and becoming a place to work and gather the people of Erie, PA can be proud.

At ippa, our story is just getting started. So, what happens if the tax provisions afforded the investors in opportunity zones expire with no legislative action? I hope I have shown you what happens when this legislation is understood, appreciated, and acted upon. Everyone in this room understands where we were in this community. 16501... one of the poorest zip codes in the United Stages. A mentor of mine, Uncle B, once said 'Don't just come to me with a problem...bring a solution.' One of the poorest zip codes...That is our past. Walk across the street and see the progress. You have heard the goals and dreams, and you see the action. I'm not the only one. We are living the solution. With your help, we are fixing it. It's a WIN-WIN-WIN. Let's not go backwards. Take action! We will make Erie great!

Thank you for your time and consideration,

Jason Spore

Founder and Owner/ Ippa Pizza Napoletana
814-449-9292

Chairman KELLY. Thank you, Mr. Spore.

Mr. Tredway, you are now recognized.

STATEMENT OF TOM TREDWAY, PRESIDENT, ERIE MOLDED PACKAGING

Mr. TREDWAY. Good afternoon, Chairman Smith, Chairman Kelly, Ranking Member Moore, and members of the Committee. My name is Tom Tredway. I'm President of Erie Molded Packaging, privately held family-owned manufacturer, founded right here in Erie, Pennsylvania. I appreciate the opportunity to discuss critical tax provisions with you today and welcome you to the Keystone State.

For more than 40 years, Erie Molded has been creating custom injection molding parts and integrated packaging solutions customers all over the country. My father, who was also an Erie native, had the desire to contribute to Pennsylvania's manufacturing sector. After running a successful string of businesses on the west coast in the seventies. He founded the company here in 1982 and has been a pillar of our community ever since.

For those visiting our state who might not be familiar with Pennsylvania's iconic architecture, our state nickname is essential to who we are as people; a keystone is in the center of an arch that holds the other stones in place. It is the strongest and most critical part of the structure and once you know what—excuse me. And once you know what they are, you will surely recognize the symbol across the state. The stone reflects Pennsylvania's historic and political importance in America's early years. The U.S. tax code also functions as a keystone for our great nation.

Manufacturers across the country face unique challenges every day. When our keystone is strong, such as having pro-growth tax code, we're able to build something great. However, beginning in 2022, our tax code began to develop cracks, weakening the entire structure. Tax provisions that had either been in the Code for decades or enacted as part of the 2017 tax reform, began expiring in 2022. And there are more damaging changes on the way next year. A weakened tax code, severe worker shortages, supply chain disruption, and competition from abroad have significantly impacted Pennsylvania's manufacturing community.

I want to thank all the members on the subcommittee who supported the tax relief for American Families and Workers Act earlier this year, and I'm calling my Congress to finish the job by getting this bill signed into law. This legislation will allow provisions from the 2017 Tax Reform, such as domestic R&D expensing, interest deductibility standards, and full expensing provisions to be extended until 2025.

However, Congress has a major tax battle ahead of next year when crucial tax policies are set to expire, directly impacting manufacturers here in Pennsylvania and across America. In the years following TCJA, Erie Molded was able to invest nearly $7 million in new capital equipment purchasing thanks to full expensing. Along with this much needed equipment, we also were able to create new positions across our team and deliver high-quality products to our customers.

Full expensing was already phasing out and is set to completely expire in 2027. This is devastating for our manufacturers and has caused us to delay our own equipment purchases. Another harmful change that went into effect is the requirement to amortize our R&D expenses rather than being able to deduct them in the year occurred. This is a massive change for us, as historically, 90 percent of our R&D expenses went to our engineering payroll. That means eliminating R&D doesn't just have innovation, it also has a direct impact on people's jobs here and here.

Congress not allowing manufacturers to immediately expense R&D directly translate to fewer quality jobs in the manufacturing sector, while our foreign competitors are implementing vastly beneficial R&D benefits. This change also caught me and many other manufacturers in our community completely off guard.

In 2023, a full year after the R&D change, I was presented with taxable income that was almost six figures higher than I had anticipated. Changes like this mean I have to spend more time with my accountants and lawyers, figure out the best way to prepare for our future instead of going to business.

Finally, EMP is organized as a pass- through, meaning when 20 percent pass-through deduction expires at the end of 2025 and individual tax rates increase, our tax bill will be significantly higher. Many small manufacturers are organized as pass-throughs, so our sector will be disproportionately harmed by the expiration of this deduction, severely hampering our growth trajectory. Similarly, since many family-owned manufacturers consist largely of illiquid assets, we are disproportionately impacted by the estate tax changes also coming in 2025.

I urge every member of this Committee to preserve those and other pro-growth provisions which allow manufacturers to function as the backbone of our economy and compete on a global scale. I once again want to thank members of this Subcommittee for inviting me here today. I hope your time in the great state leaves you with a lasting impression as you return to work in D.C., and you keep the Keystone in mind as you debate our tax code's future.

[The statement of Mr. Tredway follows:]

Written Testimony of Tom Tredway
President, Erie Molded Packaging
U.S. House Committee on Ways and Means
Subcommittee on Tax Policy
Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt
May 20, 2024

Good afternoon, Chairman Kelly, Ranking Member Thompson and members of the subcommittee. Thank you for the opportunity to appear before you today and for holding this hearing in my hometown of Erie, Pennsylvania. As the leader of a local, family-owned small manufacturer, I want to welcome you all to the Keystone State. I am excited for our discussion today on how the tax code can support our local manufacturing community.

My name is Tom Tredway, and I am the President of Erie Molded Packaging. I represent just one of the more than 13,000 manufacturing operations in Pennsylvania—including more than 1,300 shops in Erie and the surrounding communities. More than half a million individuals are employed by manufacturers in our state, and I am proud that EMP's team is part of this robust Pennsylvania manufacturing community. Across the country, nearly 13 million people are employed by over 244,000 manufacturers, and I appreciate that you chose Erie to see a snapshot of the wider sector's experiences.

My father, Phil Tredway, founded EMP in 1982, but his desire to contribute to Erie's manufacturing economy started well before that. While running a successful chain of companies in San Diego in the 1970s, he met my mother, who also happened to be from Erie. They both wanted to move back to their home state and begin a new adventure, which they successfully accomplished and have been a pillar of our community since.

For more than 40 years, EMP has been creating custom injection molded parts and integrated packaging solutions for customers all over the country. Because of the investments we have made in our state-of-the-art facility, we are able to provide quality products to a wide range of markets, including food and beverage, personal care, health and beauty, chemical and pharmaceutical customers. We have innovated and invested in our machinery and workforce to ensure we are able to keep up with an ever-changing economic landscape. At the end of the day, EMP is a family operation, and I've been lucky enough to work alongside my father for almost twenty years to grow our business to what it is today.

For my out-of-town friends on the subcommittee who may not be familiar with Pennsylvania's iconic architecture, our state nickname is central to who we are as a people. A "keystone" is the stone in the center of an arch that holds the other stones in place. It is the strongest and most critical part of the structure—and once learn about them, you will surely recognize the symbol on our buildings and on marketing across the state. This stone reflects Pennsylvania's historic, geographic and political importance in America's early years.

The U.S. tax code also functions as a keystone for our great nation. Manufacturers across the country face unique challenges every day, but when our keystone is strong, such as having a pro-growth tax code, we are able to build something great.

However, beginning in 2022, our tax keystone began to develop cracks, weakening the entire structure. Key tax provisions that had either been in the tax code for decades or enacted as part of the 2017 tax reform began expiring in 2022, and there are more damaging changes on the way in 2025. A weakened tax code, severe worker shortages, supply chain disruptions and competition from abroad have significantly impacted Pennsylvania's manufacturing community. I want to thank all of the members of this subcommittee who supported the Tax Relief for American Families and Workers Act earlier this year, and I am calling on Congress to finish the job by getting this bill signed into law.

Manufacturers rely on two simple ideas when it comes to our tax code: tax laws must be **pro-growth**, and they must be **consistent**. That's it. End of story.

Now, I don't think any of you set out to craft policy that is chaotic or hinders businesses in your districts from succeeding. However, Congress has a major tax battle ahead of it next year, when crucial tax policies are set to expire, directly impacting manufacturing here in Pennsylvania and across America. While deliberating on the future of our tax code, I urge members of this subcommittee to keep in mind the real-world effects their decisions have on small and medium manufacturers like us, around the country and especially here in Pennsylvania.

A. Effects of 2017 Tax Reform

The 2017 Tax Cuts and Jobs Act allowed manufacturers to perform at our greatest potential. Following TCJA's passage, the manufacturing sector experienced the best year for manufacturing job creation in the previous 21 years and the best year for manufacturing wage growth in the previous 15 years.[1] Manufacturing capital spending grew 4.5% and 5.7% in 2018 and 2019, respectively.[2]

Thanks to tax reform, EMP's investments in our equipment and workforce expanded rapidly. We were able to add a range of new machinery, including four new injection molding machines, two new high speed in-process lining machines, new stacking and packaging automation and tooling for two new product lines. Along with this much-needed equipment, we were able to create new positions for our quality managers, production team, sales and customer services operations. We are able to deliver even higher quality products faster than ever thanks to a tax code that supported manufacturing success.

In the years following TCJA, we were able to invest nearly $7 million in capital equipment purchases. Because of the nature of our proprietary products, we might be even more capital-intensive than most of our fellow manufacturers because we need to design, prototype and build our own production tooling to launch new products that meet our customers' needs. No two jobs are ever similar on our floor, which leads to constant innovation and maintenance of our machines and education of our employees. Also, because of these investments, we have been

[1] National Association of Manufacturers, "Competing to Win" (September 2022), *Available at* https://documents.nam.org/ctw22/competing%20to%20win%202022%20-%20tax.pdf.
[2] Id.

able to send several entry-level employees to apprenticeship programs and collaborate with local technical schools with on-the-job training, providing the opportunity for the next generation to develop important skillsets and be exposed to quality jobs in our community.

Full expensing in the years following TCJA was a game-changer for EMP. The ability to immediately deduct the full amount of an equipment purchase is massive for capital-intensive businesses such as manufacturers. According to the Joint Committee on Taxation,[3] the manufacturing sector, and specifically small manufacturers, utilize accelerated depreciation more than any other sector. When full expensing was in effect, we were able to purchase new equipment that not only allowed us to scale our operations, but ensured our employees were operating efficiently and as safely as possible with reliable equipment. Allowing this provision to phase out beginning in 2023 and to ultimately expire in 2027 is devastating for the manufacturing industry. I want to thank Mr. Arrington, who sits on this subcommittee, for his leadership on the Accelerate Long-term Investment Growth Now (ALIGN) Act, which would make full expensing for capital equipment purchases a permanent part of our tax code.

Additionally, at the beginning of 2022, the deduction for interest on business loans was reduced in a manner that disproportionately affects manufacturers. The maximum deduction allowed was narrowed from 30% of earnings before interest, tax, depreciation and amortization (EBITDA) to 30% of earnings before interest and tax (EBIT). Excluding depreciation and amortization reduces the amount of interest businesses can deduct, making it more expensive for manufacturers to finance capital equipment purchases.

Because we do not carry as much debt as some of our peers, we may not experience a direct impact of this tax policy change. However, our customers throughout the supply chain certainly do, which means the impact of this change makes its way to us. The majority of my customers buy and sell large pieces of capital equipment that require debt financing, and their inability to deduct interest makes borrowing more expensive, impacting small manufacturer's economic health and ability to grow. The impacts of policy changes cause ripple effects across every level of the supply chain, and small manufacturers often take the biggest hit.

Another harmful change that went into effect in 2022 was the requirement to amortize our R&D expenses rather than being able to deduct them in the year incurred. This is a massive change for EMP, as the private sector accounts for more than 75% of total R&D spending,[4] with small businesses accounting for approximately $90 billion of all private-sector R&D investments.[5] This change isn't just an innovation problem, it has effects on the number of individuals we can employ at EMP. Historically, 90% of our R&D expenses went to our engineering payroll. That means that limiting R&D doesn't just limit innovation—it also has a direct impact on people's jobs here in Erie. And these are quality, high-paying jobs—but they are at risk if immediate R&D

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[3] Joint Committee on Taxation, "Tax Incentives for Domestic Manufacturing," JCX-15-21 (March 2021), *Available at* https://www.jct.gov/publications/2021/jcx-15-21/.
[4] National Center for Science and Engineering Statistics, National Science Foundation, National Patterns of R&D Resources: 2020-21 Data Update, NSF 23-321 (Jan. 4, 2023), *Available at* https://ncses.nsf.gov/pubs/nsf23321.
[5] National Center for Science and Engineering Statistics, National Science Foundation, InfoBrief, NSF 22-343 (Oct. 4, 2022), *Available at* https://ncses.nsf.gov/pubs/nsf22343 and InfoBrief, NSF 23-305 (Dec. 14, 2022), *Available at* https://ncses.nsf.gov/pubs/nsf23305.

expensing isn't restored. In short, Congress not allowing manufacturers to immediately expense R&D expenses directly translates to fewer quality jobs in the manufacturing sector while our foreign competitors are implementing vastly more beneficial R&D benefits. I would like to thank Mr. Estes and Mr. Larson, who both sit on this subcommittee, for their leadership on the American Innovation and R&D Competitiveness Act, which would make the immediate expensing of R&D expenses permanent.

Again, I thank every member of this committee who supported the Tax Relief for American Families and Workers Act which would allow for the TCJA R&D, interest standard and full expensing provisions to be extended from their expiration until 2025. However, manufacturers will be right back in this fight next year even if this legislation is signed into law.

B. Tax Policy Must Provide Certainty

While there is no question the TCJA accomplished providing pro-growth policies to the manufacturing sector, that growth is at risk if these provisions are allowed to expired as scheduled at the end of 2025.

For a small manufacturer like me, I can tell you from experience the R&D changes in 2022 caught me completely off guard. In 2023, a full year after R&D expensing had switched to an amortization requirement, I was presented with taxable income that was almost six figures higher than I had been anticipating. I was not alone in my surprise, and I spent countless hours on calls with my fellow Pennsylvania manufacturers as we figured out how to navigate these tax changes. Changes like this mean I have to spend time with my accountants and lawyers to figure out how to best prepare for these alterations. This is time-consuming and disheartening when I could be spending my time growing my business.

EMP is organized as a pass-through, meaning when the 20% pass-through deduction expires at the end of 2025 AND the individual tax rates increase, our tax bill will be *significantly* higher. Many small manufacturers are organized as pass-throughs, so our sector will be disproportionately harmed by the expiration of the deduction, severely hampering our growth trajectory. I would like to thank Mr. Smucker, who sits on this subcommittee, for his leadership on the Main Street Tax Certainty Act, which would make the 20% deduction for pass-through businesses permanent.

EMP is a family business, which means we have spent a significant amount of time understanding the ramifications of the estate tax. EMP is not a liquid company; almost every penny we earn is poured back into our business so we can grow and compete. The TCJA increased the exemption threshold for the estate tax, allowing more of a family-owned business's assets to be passed on to the next generation without incurring a tax burden. The estate tax has a disproportionate impact on family-owned manufacturers because our companies consist largely of illiquid assets that would need to be sold or leveraged to satisfy the tax burden. The increased exemption is set to expire at the end of 2025, which will threaten my ability to pass EMP on to my children. I would like to thank Mr. Feenstra, who sits on this subcommittee, for his leadership on the Death Tax Repeal Act, which would permanently repeal the estate tax.

These tax policies implemented by the TCJA were revolutionary for manufacturers, and they also face expiration in the near future. The changes to the pass-through deduction, individual rates and estate tax threshold on top of the expirations of R&D expensing, interest standards and full expensing will be devastating for every manufacturer in America. I urge every member of this committee to preserve these provisions which allowed manufactures to function as the backbone of our domestic economy and compete on a global scale. As you begin to craft the next generation of our tax code, I hope you keep these guiding principles in mind:

- Tax policy should promote economic growth, U.S. jobs creation and the ability of U.S. manufacturers to compete in the global markets;
- Federal tax policy should be simple and permanent; and
- The tax burden should be minimal, competitive with other jurisdictions and nondiscriminatory.

I once again want to thank the members of this subcommittee for inviting me here today. I hope your time in our great state leaves you with a lasting impression as you return to work in D.C. Pennsylvania is a blueprint for America's manufacturing greatness, and our values and dependability are represented in manufacturers across our state. I hope you keep the keystone in mind as you debate our tax code over the next year and a half, and ensure it supports the American manufacturing dream for the decades to come.

Chairman KELLY. Mr. Tredway, thank you. Thank you all for your testimony.

My first question is going to be from Mr. Whiting. And I think we brought the chart up. Ms. Moore, this is for you. Here. Now, the reason we brought this forward, if you can see what happened, the taxes paid when these properties were acquired, taxes paid $176,185. After Erie downtown Development Corporation investment, it was $2,278,400. So the end game to all of this is, you know what, I've been through this in my life. There's many—a couple times in my life I paid absolutely no taxes and people said, how did you get away with that? I said, we lost money that year. Taxes are based on profits. And I think sometimes we forget who it is. The old story, don't worry about the mule, just load the wagon. When you treat the mule the right way, the mule can pull the wagon a lot easier and a lot harder.

So Mr. Whiting, if you would explain a little bit, you're working in an Erie Downtown Development Corporation's Mission—and I really miss Johnny Persinger for not being here today because I know it would—how important he was to that and how it's felt in Downtown Erie. Are there examples of the progress of every vitalization of downtown Erie felt in other parts of this community?

Mr. WHITING. Yeah, I think—you know, we all Miss John Persinger here and I know he's—he's going to be watching this, wishing he was sitting here as well. When I said that our work isn't done, I meant our work is not done. The new buildings that you saw on State Street today, the first one opened two and-a-half years ago. That effort in the two and-a-half years since has led to—in the one-mile radius around it, over $100 million more investment. If you look at the five and ten-mile radiuses from that, you're starting to see that work as well, with the announcement of Kyocera and Truck-Lite coming to town. A lot of the work in our neighborhoods starting to happen through the development of different CDC and other vehicles to get the neighborhoods ready for this kind of change.

We are starting to see it radiate out, but it's not there yet. This is not a decade long situation effort. This is a multiple generation effort that we're going to have to undertake to truly do the work completely here. Ten years of an Opportunity Zone Act being in place is a great start, but we're barely at the quarter pole. Give us another 20 years and you'll see a county that has felt the impact of this in a much more thorough way than what we're seeing right now.

Chairman KELLY. Thank you. Mr. Hawkins, You played a pivotal role in the Opportunity Zone legislation in your time being a member of the staff. Part of the Opportunity Zone legislation that was left out in the final package was transparency and reporting requirements. Opportunity Zones have already become one of the most successful provisions of the republican tax cuts. Can you speak to the importance of including these requirements and how it further boosts Opportunity Zone investment?

Mr. HAWKINS. Thank you, Chairman Kelly. Transparency reporting requirements are absolutely critical. So what we know from a UC Berkeley study, a Treasury Department study and some private information brought together by accounting firm called

Novogradac, that a hundred billion dollars at least in equity, has gone into opportunity zones thus far. From the Treasury study, we have a feel for what percentage of each state's opportunity zones got investments in.

So for instance, Pennsylvania, being about 44 percent of the designated zones, saw some investment. And so we have some very broad understanding that the policy is being impactful in a positive way. But it's like looking through a window, a car window with mud on it and the transparency and reporting legislation would essentially be like a windshield wiper just pulling the mud off. And so, you know, the legislation that we appreciate, so deeply appreciate you introducing, would empower Treasury to compare the performance of Opportunity Zones against areas that could have been designated zones, but weren't, and also compare the performance, economic performance across a number of key metrics with the broader economy. And that will allow you all on this panel to tweak the policy, but with a clean window, if you will, you know, with a full understanding of what needs to happen to make the policy even more impactful.

Chairman KELLY. Thank you. Could you speak maybe a little bit too on how the opportunity zone have an impact on rural communities?

Mr. HAWKINS. Yes. So that's absolutely critical. You know, one of the things that we see, you know, right now, we have an entire Opportunity Zone map that gives us a feel, again, for how diffuse the investment has been. So certain states like Mississippi, 65 percent of their Opportunity Zones have seen investment. Places like Utah see significant investment. Montana, once again above 60 percent. We see other states where you're looking at below 40 percent.

And so one key element to drive that would immediately drive capital into rural Opportunity Zones would be this Feeder funds or Fund of Funds addition to the policy. What it basically enables is it enables folks who don't know specifically where they want to invest or how to just put—to give that money to smaller impact-oriented funds that know exactly what they want to do. And in rural areas, you're more likely to see investment in operating businesses. In the dense urban areas, you're obviously more likely to see investment in real estate.

And so favoring operating businesses through feeder funds, favoring smaller, impact oriented investors through feeder funds and a fund of funds concept would absolutely jumpstart rural investment.

Chairman KELLY. Thank you. Jason, I wanted to ask you a little bit. So without the Opportunity Zones, what would the future of Ippa Pizza be like? And I've got to tell you, first of all, I think sometimes people misunderstand. You work full time as it is.

Mr. SPORE. I do.

Chairman KELLY. Yeah. So this wasn't something that you were looking at and say, hey, here's a chance for me to really—to get ahead. But you were still working at the same time and then developing. I'm interested in where you got the recipes. That's really good—that's good to be able to get that. In my hometown, none of the Italians would ever share any of their recipes with anybody else. That's just the way they are. The Irish, they give you anything they can give you. But if you can, if it hadn't been for opportunity zones——

Mr. SPORE. You know, I couldn't tell you.

Chairman KELLY [continuing]. Would you have been able to do this?

Mr. SPORE. I'm a pretty resilient guy, okay? I fight hard, and I—sometimes I don't know when to give up. So I would hate to say no, but what I will tell you, that the speed of which, of what I've been able to do and how fast I've grown, okay. The Opportunity Zone, the EDDC, the help that they've given and created for me has been paramount. No way I could do it the way that I'm doing it now.

Chairman KELLY. Well, I've got to tell you, so——

Mr. SPORE. Not even close.

Chairman KELLY. So what you're talking about never giving up,——

Mr. SPORE. Yes, sir.

Chairman KELLY [continuing]. That's not only true of you.

That's true of this town and of this state and of this country. We never, ever give up. We refuse to lose. That's the key to it.

Mr. SPORE. It's a great quality.

Chairman KELLY. Thank you so much. Yeah.

Mr. Tredway, can you speak a little bit on the impact that R&D has had on your manufacturing business in the community that you work with closely? And if R&D was not extended into 2025, how would that impact business in the Erie area?

Mr. TREDWAY. So we make proprietary products Erie Molded. Stock packaging. Not the most exciting thing in the world, but it does require a lot of R&D, and most of that R&D is actually tied up, as I said earlier, in wages. It's a lot of engineering, spending time trying to figure out how to make a product better, bring a new product to market.

So, I mean, when that policy changed, and it'd been that way since, what, the mid-50s? It was one of the more frustrating tax policy changes I could remember since being a businessowner, because now I'm forced to take something I have to pay for right away out of pocket with cash, but expense it over five years. And so again, myself and a lot of my other my cohorts got a huge tax bill they weren't expecting.

So I mean, I think it's one of the more—it's just a critical piece of legislation, especially compare—or tax code rather, when you compare how other countries, like, China, a lot of European companies treat R&D. We need to do everything we can to incentivize it because otherwise it's going to be more challenging for someone like me to make those investments.

Chairman KELLY. Thank you. I think one of the things were going through Tax Cuts and Jobs Act, in the very beginning, we were looking at what we were doing to business around America and we were actually driving people out of our country because of our policies. The idea that we've turned that around and people are now saying, no, I'm going to stay in America, I'm going to continue to invest in America and I'm going to look to the future to make it a stronger America, and certainly in the world we live in today, if we don't understand the importance of that, we understand absolutely nothing.

I want to thank you all for being here. It's really good to hear from you and we'll stay in touch. Right now I'm going to recognize my colleague from Wisconsin, Ms. Moore.

Ms. MOORE of Wisconsin. Well, thank you so much, Mr. Chairman. As you all noticed, the clock has started moving now that I'm talking, so we're going to get through this pretty quickly. I just wanted to talk to you, Mr. Spore. You said that you learned at age 50 that marketing was extremely important. Why don't you bring us any samples of that pizza so that we could assess and evaluate the value of this investment and——

Mr. SPORE. I will personally escort you after the hearing.

Ms. MOORE of Wisconsin. I mean, you—you've just got to think. You really do.

I just want to make a comment on some of the things that our Chairmen have said because I'm the only Democrat up here, in case you guys didn't guess. And one of the things that the Chairman of our Subcommittee often says, and I even heard Mr. Hawkins talk about how corporations don't pay any taxes, people pay taxes and it's passed on to consumers and so forth. And that the money that we call taxpayers money that we return in the way of tax cuts is not the government's money, it's their money.

Well, listen, I just wanted to point out that when we, for example, cut corporate taxes to 21 percent from 35 percent, under that tax law, that was taxes that were owed to the public trough to pay for stuff like foreign aid to our ally Israel, for Defense, for veterans housing which is woefully inadequate, nursing homes for our seniors, roads and bridges.

So yeah, it is money that is owed to all of us, and so when we have policies like the thing that we're discussing today, for example, we are deferring taxes that would have otherwise been paid for the public good and providing them as tax breaks. So, I do want people to know that, respect and appreciate that, it is a tax transfer.

Now, when the Republicans here talk about how Democrats and Joe Biden are going to raise taxes on all these folks out here who are facing inflation and so forth in groceries, gasoline, and so forth, I do want you to know that the Tax Cuts and Jobs act was designed to provide those business cuts and make them permanent, like lowering the taxes from 35 percent to 21 percent. They pay for them within the budget window. I can't do a whole class because the clock is moving, but they paid for them by making tax cuts to individuals temporary. So whatever tax cuts were made for low income or middle class people were temporary while business taxes were permanent.

And Mr. Tredway, in terms of bonus appreciations, we all agree with that, pass-throughs, I want you to know that all small businesses are pass-throughs and they deserve the benefit, but all pass-throughs are not small businesses. So we need to look at that legislation. We're not talking about that today, because 80 percent of that money that benefits these small manufacturers like you goes to the big-old corporations.

Now, that being said, I just want to thank everybody for being here and want to point out that I think that we have had very good testimony here of how we need to tighten this up because what we have seen, and that's not been the case here in Erie and not in Milwaukee, but I hear places that we all love like New York City or other places where we're scratching our heads, Mr. Chairman, and wondering was that the best investment of our tax monies that would ordinarily go into the trough to pay for toward our deficit or whatever and also up rural areas.

Mr. Scott comes from South Carolina and so does Mr. Clyburn. They came up with the 10/20/30 formula and they both had their minds trained on making sure that those areas that were populated with poor people could benefit from it too. I don't have any problem with most of this money going to real estate, but maybe we ought to put some conditions around it where we at least have some mixed-use of it.

If you're gonna' build gorgeous luxury apartments, maybe a third of them ought to be affordable housing and get that mix in, since it is taxpayer money that is providing this extraordinary capital gains treatment. As you notice, you see that clock there? That clock will not come on when he recognizes Mr. Smith here. So I yield back.

Chairman KELLY. Well, that's the good thing about being in the Majority.

Ms. MOORE of Wisconsin. That's it.

Chairman KELLY. I know that it can be offensive at times, but I also would like to point out that while you may not agree that the Tax Cuts and Jobs Act was a great—great piece of legislation, the great—the most——

Ms. MOORE of Wisconsin. I didn't say that.

Chairman KELLY. Excuse me, excuse me, reclaiming my time.

Ms. MOORE of Wisconsin. Oh, I'm sorry.

Chairman KELLY. The most revenue we've ever been able to collect was during the TCJA. So as bad as it may be in some places—but I will tell you what, Ms. Moore, I would be glad to work with you and I would appreciate it—it would've been nice if some—some other folks from the democrat part of the—of the Committee would have been here today as just opposed to yourself. They were all invited. I guess they didn't find time and didn't see that going to Erie was going to be that big of a deal.

But I got to tell you, when we stop talking about democrat versus republican, talk about Americans helping fellow Americans, I think we're much more successful in that. I try to stay away from that and I think that most of us, I think the—the country in general is so polarized. We need to get away from that. That is what is absolutely destroying this great, great country.

So Mr. Chairman, you're recognized.

Chairman SMITH. Thank you. With the magic minute I guess, that's—it's great to, it's great to be here to ask some questions.

Mr. Whiting, you've had a front row seat to the way that the Opportunity Zone program has transformed this community in Erie. We can see the infrastructure. When we were driving through the streets, you could see that there weren't vacant buildings, they were full. I wish that was the case in my home State of Missouri.

It's not. But what has this program meant for the working families of this community? And what about just what has this meant to this community?

Mr. WHITING. So I touched on it in my remarks, but I think it has allowed us to take the first steps of forward progress this community has seen in five decades. And that forward progressive inspires others to follow along. It creates a sense of optimism, creates a regained sense of community pride. And one of the things that we're really focused on right now too, when we talk about working families and small businesses, is we're not operating a suburban mall food court downtown. Every business that comes into our footprint is locally owned and we are giving them priorities as they build out their businesses so that their families can live the proverbial American dream by growing something that's theirs and contributing to that economic multiplier effect that we're all striving for.

The work that we need to do to ensure that those businesses have the tools that they need to be successful is the work that's going to make us all sustainable. That means we need to continue to have expanding tools in order to be able to do that. Whether that's tools for businesses that are under a certain size, being exempt from certain taxes, investors in those businesses, getting something back for their dollars in year one, many states are doing it. There's no reason I can't get down to the federal level, too. You guys have the tools. We're here to encourage you to use them.

Chairman SMITH. Thank you. Mr. Hawkins, while Opportunity Zones have been an incredible success story for many communities, we now know that 95 percent of the Opportunity Zone investment has gone to urban areas. In the Small Business Jobs Act that passed out of the Ways and Means Committee last June, and we included provisions to establish a new rural Opportunity Zone program more targeted to rural America.

Given your extensive experience with Senator Scott and working on this program, what more should we do to ensure its success for rural communities? You kind of touched on that earlier, but what—I want to make sure that we see these successes all over the country.

Mr. HAWKINS. Well, the first critical step is built into that very Small Business Jobs Act, is that transparency in reporting. And so were glad to see that the transparency reporting requirements in the bill you just noted, mirrored those transparency reporting requirements in the Opportunity Zone. Transparency Reporting and Extension Act that Chairman Kelly led. That is critical because then again, be able to make reasonable adjustments to the policy, but with a full understanding, deep understanding of why areas are getting the investments they're getting and what should be done, what specific steps should be taken.

So for instance, when you look at the data on affordable housing across the country, there's a clear trend that we see across the country; higher—you know, higher housing stock, but without an intended increase in rents. Right. But the transparency reporting requirements that you have in your Bill would allow us to drill down on that and see why.

Some governors prioritized affordable housing. They prioritized some areas over others. They had certain—and certain outlook. You know, when you look at, say, a state like Colorado, where 7 percent of the zone saw investment, that was because of an intentionality on the part of local government that produced certain results that they wanted to produce. So the first key step is that transparency legislation. The next step is the step you've already both taken.

The next step is that feeder funds concept that basically brings operating businesses to the front of the line. Operating businesses are what it would be to get that number from 5 percent, you know, to 20 percent to 10 percent, which directionally, is what we want to do in these rural areas.

Chairman SMITH. So the Opportunity Zone program has not operated in a vacuum. It was created as part of the Trump tax cuts, which provided critical tax relief to working families, as well as businesses that employ them, including research and development expensing that was mentioned, which supports 21 million jobs, a hundred percent immediate expensing on equipment, interest deductibility, death tax relief, and the 20 percent small business deduction of the 199–A.

Mr. Tredway, can you share how these pro-growth tax policies worked in tandem with the Opportunity Zone program to benefit your family-owned small business and others like it?

Mr. TREDWAY. The pro-growth tax strategies from the TCGA (sic) put us in a better position to thrive. We had good things going our way, but having incentives to do research and development, having incentives to make capital investments that we need as a small business to both domestically and internationally, all allowed us to put more money back into our employees, back to our company. Every employee at Erie Molded would tell you that the owners put everything back in.

We're sending entry-level employees through education, through different classes, local colleges, and local other—educational institutions, so they can get training that will carry with them all the way for the rest of their lives, right? And we're able to do that in a way we never had before.

So it allowed us to hire more people, bring more people to this region, and then if you take a look at the Opportunity Zones, it made it a better place for those people to live, work and play. I've been back in area for almost 20 years. I've never seen so much excitement, so much investment downtown. And that's a big benefit, because part of our business strategy is to retain and attract workers. So Opportunity Zones has had a huge impact in that regard.

Chairman SMITH. Thank you. Thank you, Mr. Chairman.

Chairman KELLY. Thank you, Chairman. We'll now recognize the gentleman from Arizona, Mr. Schweikert for five minutes.

Mr. SCHWEIKERT. Thank you, Mr. Chairman, and Mr. Chairman and Ranking Member Moore. We all get titles. I want to walk through a couple of things, and also, Mr. Kelly, I really appreciate it. I've never been in this part of the country. I'm from Arizona, and my world is very different than yours. My county has about 400 or 500 new residents every day. So when you read and look at some of this data here, it's, for me to get my head around what struggle really is like, but Mr. Hawkins, I want to walk through, and I don't mean to sound like a heretic, because I personally come from the real estate world, but if I was to sit down with you and say, okay, the next generation of Opportunity Zones, you want more of the benefits to incentivize the actual employment engine than maybe the—the real estate side? You know, we need many of these areas to have rehab, this and that, but one of my great concerns is, how do I get the next generation of entrepreneurship training, learning to show up at work, things like that, control of work, things like that, to actually also have investment. And sometimes investors who would be interested in that growing concern actually succeed? How would you design—in a short time, how would you design that type of feeder fund?

Mr. HAWKINS. Sure. So you'll be familiar from the private equity world in real estate, private equity, the concept of a Fund to Funds. So where smaller fund managers, smaller investors are able to benefit from folks who are just coming in and——

Mr. SCHWEIKERT. But—and somebody said it's two—two things. Over here I have my credit investment, you can—you could actually take some of our updated and credit investor rules and make it so smaller individuals could participate in receiving the tax benefits. And maybe even you could design there where you small equity interests, so you actually have a benefit if the concern does well. I'm just—I don't want to have a world where we've done amazing rehab in difficult areas or rural America, where you built—you fixed the building; I now need businesses in that.

Mr. HAWKINS. Right.

Mr. SCHWEIKERT. I need the next—you know, the folks who venture to bring in the next generation of talent.

Mr. HAWKINS. Right. And the next really exciting—you know, exciting possibility is if Congress were to allow after tax dollars to come into Opportunity Zones or the benefit of the ten year—if you hold a—if you hold an investment for ten years, ten plus years, ten years and a day, then you get a 100 percent step-up basis. So think of it as no capital gains on the new business that you started in an Opportunity Zone. So that'll be—that'll mirror what we see in traditional business——

Mr. SCHWEIKERT. But——

Mr. HAWKINS [continuing]. Operating business investment, which will create more jobs.

Mr. SCHWEIKERT. Putting your model in your head, is it to the business or is it to the investors in the business?

Mr. HAWKINS. I'm sorry?

Mr. SCHWEIKERT. Is it to the business or the investors in the business?

Mr. HAWKINS. So the gain improves—so if I start Hawkins, LLC, you know, and let's say it's a social media company, and so I invest a million dollars in capital gains into that business, obviously, I still owe my taxes on those capital gains, you know, after the deferral period ends, but there's an additional benefit that says Hawkins, LLC, that new business, if that business goes from a million dollars in value to $10 million in value, and I hold that business for 20 years, or 11 years, when I sell Hawkins, LLC to, you know, some larger company, there's no capital gains on the $9 million.

Mr. SCHWEIKERT. Okay.

We'll have to whiteboard this, because I'm not sure that completely gets my capital to run to the business, to finance it, to— so we'll walk through that.

Mister—is it Tredwell?

Mr. TREDWAY. Tredway.

Mr. SCHWEIKERT. Tredway.

Mr. TREDWAY. Tredway, yeah.

Mr. SCHWEIKERT. Or I could just look at—read your nameplate. You actually said something—and this is one of my fixations for my brothers and sisters here on the Committee. The hundred percent expensing, which we believe may, at least in the text from single biggest driver of economic expansion is a timing effect. You still—you know, if—whether we make you depreciate something in seven years or five years or in one day, government still—you still get the same depreciation. It's a timing effect. The same thing on research and development. Perversity we have right now is you do research and development, you now have to finance it and then later on you get depreciated over the years. So now in today's financing costs. So I sort of wish intellectually we could all sort of separate that those types of expensing, it's a timing effect issue that creates a virtuous capital cycle so you get more productive so you can pay your workers some more.

So you see, my personal fixation is, what is the next generation of jobs really look like? And with that, I yield back, Mr. Chairman.

Chairman KELLY. Thank you, Mr. Schweikert. Now recognize a gentleman from Kansas, Mr. Estes, for five minutes.

Mr. ESTES. Well, thank you, Mr. Chairman, and thank you to all of our witnesses for being here today. It's always great to get out of the D.C. Beltway and into diverse communities across our great nation to hear directly from Americans who are helped or harmed by the policies that we write or vote on.

While today's hearing focuses on the success of good policy, namely Opportunity Zones that were implemented in the Republicans Tax Cuts and Jobs act in 2017, I want to take some time to highlight a few other areas ripe for strong policy action from this committee that can help communities in the Rust Belt and beyond.

We know that nearly all Americans in every tax bracket saw tax relief thanks to the TCJA. The legislation's business provisions boosted the overall economy. However, many of these provisions have begun to expire, and the rest are set to do so in 2025. In fact, President Biden has made it clear that he will let these tax cuts expire, even though doing so means violating his pledge to not raise taxes on anyone making less than $400,000. This means that in my home district, hardworking Kansans can expect to pay $1,900 more in taxes in 2026.

And right here in Erie, Pennsylvania, one estimate is that an average of over $1,700 will be paid in additional taxes, while Americans across the country will face similar or even greater tax increases. This would be on top of the historic levels of inflation that are currently crushing Americans and making it difficult to meet every day needs. According to the CBI data released last week, inflation is up 19.9 percent since President Biden took office in 2021.

Mr. Spore, as a founder and new business owner and as a father, can you tell us how inflation is impacting you both personally and professionally? And how would additional tax hikes on office impact you and your company?

Mr. SPORE. You know, just to—just to be brief. You know, any time I don't get to make the decisions with the capital that I'm earning, you know, I want to be able to make that decision. So it obviously—it gets harder, right? It gets harder. You already see that I work a lot of hours. I'm not afraid to work a lot of hours. Couldn't imagine adding more to that, so——

Mr. ESTES. Yeah, and unfortunately, it's not just taxes that individuals will feel the paying if TCJA expires. Without action from the committee and Congress to extend and strengthen the business provisions in TCJA, businesses will be set back, hurting the economy, job creation and workers.

We've already seen evidence of this through the expiration of the Immediate Research and Development Expensing Provision. Since amortization took effect, the growth rate of research and development has slowed dramatically, from a 6.6 percent on average over the previous five years, to less than one-half of one percent over the last 12 months.

As companies spend far less on research development, the sector is down by more than 14,000 jobs. Three quarters of research and development spending is on wages and salaries, making R&D amortization primarily a jobs issue.

Mr. Tredway, as a businessman in the manufacturing space, can you tell us how the exploration of the provisions has impacted Erie Molding Packaging?

Mr. TREDWAY. So for Erie Molded, I mean, again, first tier sort of caught us off guard, so immediately we had a tax that we weren't expecting. Now, we can of course, depreciate those expenses down the road later, but I need to make those decisions now and have that money to reinvest in my company and my people now. So initially it was money out of our pocket that we were not expecting.

Looking to the future, we will still do some R&D, but we're going to look at it differently. It's different math now. Now, like I said, for us, 90 percent. It sounds like industry average is 75 percent goes to wages. I know that the more I put into R&D, the more I'm setting myself up for a higher tax bill every year. And so it's going to change the math for us. So Yeah, it's a big problem.

Mr. ESTES. Yeah, which makes it really damaging for your cash flow as you highlighted earlier in terms of having to pay out of your pocket this year for the research and development and then not being able to write that off and on taxes to recoup that expenditure.

Mr. TREDWAY. Yeah, and for small businesses like ours, cash flow is just—it's everything. So it definitely changes the arithmetic for us.

Mr. ESTES. Thank you. This Committee knows how important immediate R&D expensing is, which is why in January we passed a tax relief for American Families and Workers Act that included immediate R&D expensing. I'm still hopeful that my colleagues in the Senate will take up this legislation. And in the meantime we'll keep pushing ahead to ensure provisions are restored and strengthened in 2025 and beyond. Thank you, Mr. Chairman, and I yield back now as well.

Chairman KELLY. Thank you, Mr. Estes. Now recognize Mr. Smucker from Pennsylvania for five minutes.

Mr. SMUCKER. Thank you, Mr. Chairman. Thank you for the opportunity to be here. This is great, hearing Mr. Whiting and seeing what's happening in the community here was just so wonderful to see the commitment that's been made and the benefits that you're seeing.

I represent Lancaster County in Pennsylvania. As many of you know, Lancaster County is on the other side of the State, but we had a similar—years ago I was in the State Senate and then I've been in Congress now for eight years and Lancaster city was in bad need of revitalization and there was a catalyst of business owners there similar to what I've heard here. Who really we started with the convention center and then a ballpark. And then you saw the effects of that over a period of years and decades of that initial investment, that initial risk, and they also took government help because we just sometimes can't make any initial project work, but you see the benefits.

So really, really great to see similar things happening here and I'm so glad that the Opportunity Zone is a part of that. I also want to mention the Businessowner, Mr. Tredway, Mr. Spore, I've been a businessowner for a long time, and really proud of the work that we did in the Tax Cuts and Jobs Act and the impact. I appreciate, Mr. Tredway, you mentioned the 20 percent deduction, the 199–A, which is really important for the past three organizations.

I do want to go back to something that Ms. Moore said, and that is, you know, some of the individual rates were not permanent and I agree, they should be made permanent and, in fact, they should have been permanent from the very beginning. We weren't able to do that because we didn't have enough—we didn't have Democrat support, frankly, in the Senate side. So we had to do it through the budget reconciliation process, which has specific scoring. So were not able to do that. But Ms. Moore and everyone else will have an opportunity to make those permanent because we'd like to do that next year.

We think it's very, very important if we don't make these provisions permanent, it will be a big tax increase on the middle class. It will be a tax increase on small business who are generating all the jobs. And so we hope to have that opportunity and we hope that's done in a bipartisan way where we really make these things permanent. It really should be.

So I want to get back, Mr. Tredway, to the 199–A, like, we're going to have to build support for that. We're going to have people understand, even businessowners understand, the impact of that. How do we build that? And we're working right now, we have tax teams that Chairman Smith has put together. We want to take this out, have people understand, the American people really understand the Importance of this policy. Do you have any ideas for us? How do we get out and talk about this?

Mr. TREDWAY. That's a great question, because it's—you know, it's not the most straightforward of all the tax codes, right. But it makes a ton of sense. And for small businesses like us to be against corporations, if we don't keep that in place we're not losing another step on the ladder when it comes to how we're taxed.

So I mean, you know, I know where I talk about taxes the most, just speaking my own experience. A lot of it's through trade organizations that I'm a part of. Trade associations, we always have an accountant that's involved who's talking about just general talking points and how we should be planning for the future, which again can be a challenge because the rules change too often, and make these things permanent. Any local training associations, there's one here in——

Mr. SMUCKER. We'll do that. I'm going to—I'm going to cut you off because there's two additional points I want to make and I only got—I have a little bit over a minute. One, I'd love Mr. Hawkins, and I'm not sure I'm going to give you time to answer this, but you know, we really want this program to improve and we're going to have an opportunity next year to do that. So I'd love to hear from you. Maybe you can do it later.

What would be some of the key things that you think would better ensure that this program is working for more communities like it's worked at Erie. And the other thing I want to be sure of is that we're incentivizing new dollars that would not have been invested otherwise. I'd love to, at some point, hear your thoughts on that.

And then, Mr. Whiting, I'd love to hear from you, and I've run out of time, so you won't be able to answer either, but one of the things we learned in Lancaster, that it was a different thing to have all of that new development actually result in better standard of living for the residents of the city, and better jobs that residents were taking. And over time, that's starting to happen, but we want to find a way to make sure that all this new development connects with workers and improves the lives of people in the city. So I'd love to hear your thoughts on that.

We don't have time. We found—as I said, it took a while for that to occur. And so, Mr. Hawkins, if you could even maybe provide to the Committee, your recommendations of key changes that we should make, and then how do we——

Mr. HAWKINS. Absolutely.

Mr. SMUCKER [continuing]. Connect that to ensuring that we're all residents, not just business owners.

Because really, the purpose of the Tax Cuts and Jobs Act, the purpose of incentivizing business, is to create great jobs and to raise the standard of living for the entire community. That's what we want to get to. So I'd love to hear from both of you, maybe, how that's worked here, and what ideas that we have to ensure that happens. So, thank you. Sorry I went over time, Mr. Chairman.

Chairman KELLY. No, Mr. Smucker, you know, because we're so limited, five minutes isn't really enough, but I hope this just begins a dialogue that you feel comfortable doing with us. Because the Chairman's idea to begin with was to take the Congress out into the country so you could have a face-to-face talk back and forth. And I think what Mr. Smucker just talked about, there's so much more that we have to be able to sit down and talk about to see where you all are in this, and how we can make the government truly work for you.

I now recognize the Gentlelady from Texas, Ms. Van Duyne.

Ms. VAN DUYNE. Thank you very much. It's great to be here in Erie today. And Mr. Chairman, thank you very much for hosting us.

Congressional Republicans know that pro-growth tax policies work for American families, for workers, and for small businesses, and following the 2017 Trump tax cuts, individuals and families reaped the benefits. Real wages grew by 4.9 percent in 2018 and 2019. Fastest two-year growth in real wages in 20 years.

Similarly, from 2017 to 2019, more than 6.6 million people were lifted out of poverty, dropping the poverty rates to 10.5 percent, the lowest level in U.S. history. The Real Median U.S. Household Income in 2019 rose nearly 50 percent more than during eight years under President Obama's leadership. And according to the Federal Reserve, low and middle-income families received the largest increase in wealth during 2018 and 2019.

And I don't want to disagree with my Democrat colleague, but when they talk about the $400,000 that people make not having taxes raised on them, I would argue that according to the Congressional Budget Office, that the tax cuts that were signed in the law by then President Donald Trump that are said to expire, that if they do expire, the vast majority of U.S., the vast majority of U.S. households would see their payments to the IRS increase. That the Trump's 2017 overhaul cut the corporate tax rate of 21 percent, intending to make it more competitive internationally. The law also temporarily cut the income taxes paid by most U.S. households, in part by trimming marginal tax rates and increasing the standard deduction.

As a result of these changes, Non-Partisan Tax Policy Center estimated a family of 40th to 60th percentile of earners would average save $930 annually.

And when we talk about the $400,000 as a mark, the fact that we're facing now 20 percent inflation means that has eroded Biden's promise on wage increases and it's pushed more people from $400,000 tax bracket. So a salary of $330,000 now would be worth $400,000 in today's dollars. So that needs to be taken into account. But in the face of major tax sites and looming sunsets, republicans will take action to ensure that American families and small businesses are not hit at higher tax rates or watered-down guaranteed deduction in child tax credit that's cut in half.

I'm excited to work on the tax teams that this Committee has put together and ensure we help create growth for small businesses, such as the ones we saw today. One of the areas I want to address is looking at how small businesses access capital and threats we see from this administration. We even saw this a few weeks ago from the Treasury, who repeated misguided attacks on carried interest loophole. We've also seen in every single budget that's been put out by this president.

Mr. Whiting, you stated a venture fund—you started a venture fund to help provide capital to small startup companies, to start companies. Can you discuss the challenges some of these small businesses face and what would happen if we allow the 2017 tax cuts to expire?

Mr. WHITING. So the challenges that they face are in getting the risk capital needed to grow. Not at the very early stage, not when they've reached a point of somewhat success in product market fit, but it's really in that—IN THAT space where they need angel investors and community investors to come to the aide of those companies. In 2014, I helped with some draft legislation for the Illinois Angel Investment Tax Credit, and I brought that up to people in Pennsylvania when we were there down Harrisburg last week. That kind of tax credit could be something that's really useful for everybody in this country and could be a federal-type of thing.

I would encourage additional investment in those businesses at those times. As far as the sunsetting of some of the TCJA provisions, I think Opportunity Zone funds can be used as a predicate to getting capital of any small businesses. It is not limited to real estate at the moment. There are restrictions, but I think that can be expanded.

Ms. VAN DUYNE. All right. Thank you. Mr. Tredway, we continue to see proposals from this Administration, such as changing the long-term capital gains and qualified dividends of the ordinary income work for taxpayers, which could potentially double the tax rate from 20 percent to 39.6 percent.

How detrimental would this change be for small businesses looking to access capital?

Mr. TREDWAY. I mean, it would be a significant impact on companies like ours. You know, you're—again, you're taking that much capital, that much cash out of where we want to put it back into business, back in our people, back in capital and now we have to give it to the federal government. And that's money we need to do to remain competitive, not against, just against corporations who aren't pass- through companies, but also, of course, international. We don't compete in a vacuum, we compete globally. So it would be a major impact.

Ms. VAN DUYNE. Mr. Spore, in the few seconds I have left, we've also seen interest rates at a 30-year high. Can you tell me how that has affected your business in having given access to capital?

Mr. SPORE. I haven't had to do that.

Ms. VAN DUYNE. Okay.

You haven't had—Mr. Tredway, can you tell me how small businesses have been affected by the highest interest rates we've seen in three decades?

Mr. TREDWAY. It makes the loan payments a lot different. And again, it's factoring in the decisions that we're—you know, borrowing a million dollars looks a lot different today than it does before, so, you know, a couple years ago. So now we have to—we aren't investing probably quite as much as we have in the past, you know, before interest rates start to go—hike up as much as they have.

Ms. VAN DUYNE. Thank you and I yield back.

Chairman KELLY. Thank you. The General Lady from New York, Ms. Malliotakis for five minutes.

Ms. MALLIOTAKIS. Well, thank you very much, Mr. Chairman. Opportunity Zones and Tax Cuts and Jobs Act passed by the Republican Congress with President Donald Trump were pro-growth, pro-jobs policies that benefit the American people and businesses. We saw real wages grow by 4.9 percent in the first two years that followed, making it the fastest two-year growth in two decades. 6.6 million Americans were lifted out of poverty, dropping the poverty rate to 10.5 percent, the lowest level in American history. And in 2019, the Real Median Household Income rose nearly 50 percent more than during the eight years of the Obama/Biden Administration.

But state politics matter just as much, and according to the Tax foundation, state business climate in my home state of New York is number 49, 49th Worst out of 50. Here in Pennsylvania, it's 31. My State, New York, is home to 514 Opportunity Zones and my District is home to 13 Opportunity Zones; eight on Staten Island, five in Brooklyn. All of the Staten Island's Opportunity Zones are located in the lower income, mostly minority sections of the Staten Island's North Shore, which can desperately use the private investment and revitalization, which is the exact point of the program. But the lawmakers in Albany have prevented New York's Opportunity Zones from achieving their full potential.

In 2021, New York stripped some of the state level tax benefits created under the federal program, but left in a tax exemption on capital gains from opportunities on investments that were held for at least ten years. Last Monday, the State Senate voted, however, 41 to 20, to approximately approve the measure of fully decoupling the state from the Opportunity Zones program. And these are the same people that drove out the potential Amazon headquarters out of, you know, Queens, even after the company said they would not reap the benefits of the deferred tax.

So my question is to Mr. Hawkins, can you help my lawmakers in the State of New York understand what they're missing out on?

Mr. HAWKINS. Right. What I would impress upon the state legislature there is that it is absolutely critical for the success of the policy. And when I say success, I mean in terms of benefiting the lives across a number of economic measures of the existing residents of Opportunity Zones, that they implement supportive local legislation to make sure that the policy is effective as possible.

When Congress passed Opportunity Zones, they gave governors who were designating the zones, who were picking the places where this investment could occur, three non-binding criteria for picking the zones. The first was an area where there was significant economic distress, areas that have been disrupted through technology changes or outsourcing or those kinds of things.

Second, they asked—they asked governors to look for areas where there was opportunity, where an investor could turn a dollar into five dollars. And third, they asked governors to look at areas where there could be usually reinforcing state, local and federal policy that could really help target these investments in the area where they need it most. And so certain states have been very aggressive.

Next door in Ohio, our government implemented a 10 percent state income tax credit that can be literally sold at 80 cents on the dollar for all investment in Opportunity Zones. That allows us two things. One, it drives a lot of investment into the most distressed areas. But second, it allows the state of Ohio to track opportunities on investment all across the state in the absence of federal reporting requirements.

And so, I mean, I would emphasize the legislature there in New York that this is a great policy that's changing lives and they should absolutely support it——

Ms. MALLIOTAKIS. And the private investment outweighs the costs of the state, number one.

Mr. HAWKINS. Absolutely.

Ms. MALLIOTAKIS. And you're creating jobs in these depressed communities, number two. We saw Mr. Whiting today; appreciate the tour you gave us. We're seeing the private investment, the buildings that have been revitalized now occupied, the jobs, and the shops, and the housing and tax revenue is coming not by hammering people over the head like they're ATM machines. It's actually coming because the community is more prosperous and there's more tax revenue as a result.

So my last question is for Mr. Spore.

You're absolutely right when you say New York City has the best pizza. We'd love to know those two restaurants. You can tell me after. You don't have to say it on the mic. But thank you very much and I yield back.

Chairman KELLY. Thank you for letting us know where the best pizza is.

Ms. MALLIOTAKIS. It's got to be from Brooklyn and Staten Island, that's for sure.

Chairman KELLY. Thank you, Ms. Malliotakis. Next, Ms. Miller from West Virginia for five minutes, please.

Ms. MILLER. Thank you. I think I'm at the tail end as a matter of fact.

I'm Carol Miller from West Virginia. I was born and raised in Columbus, Ohio. For those of you who think about that, for some strange reason, I think it must be Kismet, I decided not to go to Ohio State, but to go to a small women's college in Columbia, South Carolina. I met my West Virginian in South Carolina 51 years later. I love West Virginia. I love the people. And a lot of you in this room probably have relatives either in Southern Pennsylvania or in West Virginia. We are very much the same people.

I think we've established the importance of keeping the Tax cuts and Jobs Act. It's so important and what's coming ahead. I'm a small businessowner. I shake my head. I mean, I bought apartments when I still had kids in diapers. I painted them when I couldn't afford somebody else to do it. I've been ankle deep in sump pump water. I've had my hands down the back of toilets.

I'm a businessowner. I'm an LLC. I am not a bad person for being a corporation. And I can remember those huge printouts every time I had to make a payment, I'd mark it off. My interest was huge. My principal was like $45 month after month after month. People who make policy don't often understand the risk that people in business take. Small businesses in particular. And those small business people are the ones that support the Little League teams, that help the Boy Scouts and Girl Scouts. They're the ones that are reinvesting in their people and in their community.

West Virginia is about 95 percent small businesses. So now I'll go back to my notes. I do represent rural West Virginia, and we live in a community that's very similar here. When I moved from Columbus, Ohio, we had 600,000 people and my community had about 90. And I thought, what a charming small town. There are 50,000 people in my city right now.

We have suffered from bad policy and bad ideas, but like these Opportunity Zones, they have become a very effective tool to help investment in our communities. I saw our glass plants. I saw so many plants leaving in the 1980s and in the 1990s because of policy. So it's so important that we do what we do.

I'm an original Co-sponsor of Chairman Kelly's Opportunity Zones and Transparency Extension and Improvement Act, and I strongly support it. Mr. Hawkins, thank you for working to help develop the Opportunity Zone policies. You know, we've seen the impact in our communities across the country, and it's really great to be here in Pennsylvania and drive around in this beautiful town and see the before, the during and the after. I'm very impressed with that.

So I do want you, Mr. Hawkins, to give us some of your wonderful ideas on how we can do better and how we can target in our communities. And I know we probably don't have enough time for you to give us those pearls, because I've heard some of the things you've said, but it's just so, so important that, you know, we benefit from these Opportunity Zones.

Mr. Whiting, thank you for being here. And I'm impressed what I heard about Erie's development today, and, you know, got to be with you earlier in the day. We're developing—redeveloping Huntington and Charleston along our main streets in our town. Can you explain how long it's taken for Erie to see the benefits of the Opportunity Zone program and why it's so important that it should be extended?

Mr. WHITING. We're at the beginning of our seventh year of action on this right now.

Ms. MILLER. Seventh.

Mr. WHITING. And I would say that we're probably a year and-a-half into seeing some of these benefits. It does take a while. That's because development takes some time and for the effects to take hold after that, will take time as well. We need more time.

Ms. MILLER. Well, housing is also a big issue in West Virginia and in my district and we do have access to more recent data which indicates that OZ's have had such a significant impact on adding to our housing supply. And so, you know, it's up from eight percent before designation. So we also know that this new activity has a positive spillover in our neighboring communities.

Can you also speak about your experiences of using OZ's to address the housing shortage here in Erie?

Mr. WHITING. Yeah. Our OZ work has resulted in about 110 new apartments where 14 existed prior. It's also spurred on additional activity that has led to efforts at more supportive and low-income affordable housing around the community. We have something to work for here now. This is a place worth investing in. This is a place worth creating new housing in now. And so the organizations like the Hammond Health Foundation, the Community foundation are doing that work, and I'm not sure that there would be the impetus to do it ten years ago.

Ms. MILLER. I agree with you. And Mr. Spore, I want some Ippa. Thank you all of you for being here and taking the time today. We really appreciate it. God Bless you.

Chairman KELLY. Thank you. Thank you all for being here. Just before we quit, I was just talking with the Chairman. So this is a tenth meeting we've had. and his idea from day one was to take the Committee out of Washington and take it to the country so that you can have face-to-face contact; you could actually have dialogue, you could give us your true feelings on things. I think if there's one thing missing today, it is our inability to communicate with each other on a calm level, actually exchange ideas. What's in the best interest of people we represent?

By the way, there are quite a few elected officials here today. They're all sitting in on this. I appreciate you all being here. And where is Barry Copple? Barry's in the back of the room. Raise your hand, okay, so we can say hi to you. There he is. There's Barry Copple. Now why do I bring that up? We've had an opportunity to go through the most magnificent building and people say, well, how the heck did they do this? Now remember that the Warner Brothers started this in 1929. Not the best year for the economy in American history.

Now I thought it's fascinating because we talk about inflation. The Warner Brothers invested $1.5 million in the construction of this magnificent building with memories that last forever when they replaced the front marquee, the cost of replacing the marquee, just the marquee, was $1.5 million. So that's inflation, but you all being here, the tenth meeting we've had around the country, I don't know that we've had a better turnout than this, and I want you to understand that if you have something to add——

So we have—I'll read this to you because it's important that you know this. Please be advised that members have two weeks to submit written questions and be answered later in writing. I want to tell the people that are here, we're going to be here for a few minutes. If you want to have any type of a conversation with us, please don't be shy. I've been in Erie. I'm kind of used to this after 12 years, none of you are shy. Please don't hesitate to interact with us.

But to my colleagues, I thank you all for being here today. This was really, really important to us, important to this Committee and congratulations on everything you've done. With that, the Subcommittee is adjourned.

[Whereupon, at 5:41 p.m., the subcommittee was adjourned.]

MEMBER QUESTIONS FOR THE RECORD

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June 3, 2024

Mr. Drew Whiting
Erie Downton Development Corporation

Dear Mr. Whiting,

Following your testimony before the Ways and Means Subcommittee on Tax hearing in Erie, Pennsylvania, I write to request the written answers to the following questions:

- In my Congressional District – in Lancaster, Pennsylvania – there was a lag between new development and increased standard of living or job creation. As a Member of the Ways and Means Committee, charged with analyzing the outcomes of the Opportunity Zone program, I believe it is critical that new community investment directly supports workers and families in the community.
    - *Given your experience and success with the Erie Opportunity Zone, what are your recommendations to ensure that new development from Opportunity Zone investment connects with the local community and workforce to raise the standard of living?*
    - *What are your recommendations to ensure that all residents, not just business owners, within the community benefit from new investment and development?*

Thank you,

Lloyd Smucker
Member of Congress

EDDC
ERIE DOWNTOWN
DEVELOPMENT
CORPORATION

WRITTEN ANSWERS TO POST-HEARING QUESTIONS

FOR: US House of Representatives, House Ways and Means Committee, Taxation Subcommittee – Rep. Lloyd Smucker

BY: Drew Whiting, CEO of the Erie Downtown Development Corporation and Managing Principal, Tenth and State, LLC

Representative Smucker:

I am in receipt of your letter dated June 3, 2024, in which you've solicited responses to the below questions. Following each question restated below, I have provided my response.

1. Given your experience and success with the Erie Opportunity Zone, what are your recommendations to ensure that the new development from Opportunity Zone investment connects with the local community and workforce to raise the standard of living?

Generally, the Opportunity Zone development that we've completed within the bounds of the current legislative bounds has been extremely impactful with the local community and workforce, and has raised the standard of living in downtown Erie for the first time in two generations.

This impact has radiated into the surrounding residential neighborhoods, resulting in additional workforce housing, community amenities and new small business, and new jobs for that expanding downtown workforce. We are only at the beginning, and we believe that we'll not only see that progress continue, but with the continued OZ benefits in place, we expect to see growth in the rate of that progress going forward.

Thus, the recommendation is to extend the legislative window to allow for future impact. The deferral window is quickly losing value with the end of 2026 approaching. Extension of that deferral to at least a 5-year rolling deferral would encourage more investment from those who are exiting businesses and real estate developments, particularly the boomers who are at or quickly approaching retirement age and shifting out of their active assets and businesses.

2. What are your recommendations to ensure that all residents, not just business owners, within the community benefit from new investment and development?

In our community, all residents have benefitted. Erie was a community without much in the way of wins for several decades prior to the OZ-enabled development in our City Center.

Today, the revitalization of our downtown, in addition to new residents and businesses, we've seen a marked increase in the tax base that funds our public services. We've seen new employment opportunities for hundreds in new businesses and the constructions trades, who are then able to support their families with a sustainable wage in our community. Our city center and primary public spaces, once full of crime and drugs, are now a center for community activities like weekly movies in the park and live music, gallery and boutique nights, car shows, culinary festivals, and celebrations for various community groups. We've seen the economic multiplier effect take hold, but beyond that, we've seen a massive jump in community pride, involvement, and investment.

In line with the above, my recommendation is to extend the benefits of deferral and exemption to continue incentivizing investment in our community, when the same capital would otherwise sit dormant in a brokerage account.

Please reach out for clarification or to discuss in more depth at any time.

Sincerely,

Drew Whiting
CEO
Erie Downtown Development Corporation
Managing Principal
Tenth and State, LLC

LLOYD SMUCKER
11TH DISTRICT, PENNSYLVANIA

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June 3, 2024

Mr. Shay Hawkins
Opportunity Funds Association
Washington, DC

Dear Mr. Hawkins,

Following your testimony before the Ways and Means Subcommittee on Tax hearing in Erie, Pennsylvania, I write to request the written answers to the following questions:

- The Tax Cuts and Jobs Act of 2017 created the Opportunity Zone program. With its expiration upcoming at the end 2026, Congress has an opportunity to make improvements and expand the program to benefit more communities nationwide.
  - *What are your recommendations to improve the Opportunity Zone program and ensure that the program works for more communities across the country, like it has worked in Erie?*
  - *What are your recommendations to ensure that the program incentivizes new investment or 'new dollars' that would otherwise not be invested or available in the Opportunity Zone program?*

Thank you,

Lloyd Smucker
Member of Congress

The Opportunity Zones policy is achieving its goals of driving significant investment into distressed communities across the country. This is on full display in Erie, which exemplifies how the incentive can be used to revitalize one of the poorest zip codes in America and bring new economic activity and opportunity to the city's downtown core. While Erie is an incredible case study, it is not an outlier. According to a Treasury analysis of tax filings through the end of 2020, OZ investment had flowed to nearly 4,000 communities, many of which have seen a similar catalytic effect as downtown Erie.

I believe the evidence is clear that Opportunity Zones are fundamentally working. Therefore, the basic design and structure of the incentive should be kept intact. There are, however, several ways in which Congress could make the policy even more effective. For example, Congressman Kelly's bipartisan *Opportunity Zones Transparency, Extension, and Improvement Act* would establish reporting and transparency requirements, enact a one-time extension of the policy's deadlines for new investment, refine the map of eligible communities to improve targeting, and support greater investment into smaller and more rural places by permitting a feeder fund model. All these improvements enjoy broad stakeholder support.

These consensus improvements should also inform how Congress approaches the next full-scale iteration of the Opportunity Zones policy as part of the renewal of key provisions in the Tax Cuts and Jobs Act. In addition to these important provisions, I encourage Congress to consider ways to further improve geographic targeting, facilitate broader participation from investors, and make the incentive easier to use overall--including by lowering certain tests for deeply affordable housing development.

I look forward to working with this committee on building out these recommendations in order to further the reach, scale, and impacts of the Opportunity Zones policy.

LOCAL SUBMISSIONS FOR THE RECORD

Date	May 20, 2024
Name (Print)	**Danielle Bates**
Company	**Accudyn Products, Inc.**

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means Subcommittee on Tax
Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt

We want to hear your story. Below please provide any personal experiences or general comments about creating more opportunity and prosperity in the American Rust Belt that you wish to be included in the official hearing record.

My name is Danielle Bates, and I'm a co-owner and VP of Finance for a local manufacturing company that deals heavily in tool and die research and development to support our manufacturing process. Like many others in our area, our business has been directly and substantially negatively impacted by the amortization of Section 174 R&D expenses. Efforts to reverse this nonsensical new accounting rule have been unfortunately stalled in the Senate despite widespread public and bipartisan support. We urge you to introduce specific and separate legislation to address this topic immediately (or urge your colleagues in the Senate to pass the TRFAW legislation), before more jobs and small businesses are lost.

**The official hearing record will be made public as part of the transcript. This will be posted on the Committee on Ways and Means website at: https://waysandmeans.house.gov/*

Date	May 20, 2024
Name (Print)	**Paul Dillon**
Company	**Sentriqs, Inc.**

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means Subcommittee on Tax
Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt

We want to hear your story. Below please provide any personal experiences or general comments about creating more opportunity and prosperity in the American Rust Belt that you wish to be included in the official hearing record.

I serve as the Chief Technology Officer for Sentriqs Inc. I work remotely, and I live in the opportunity zone in a building that was renovated as a result of this investment. My paycheck is imported into the region, my labor is exported. As far as I know, this is rare for the area in the opportunity zone.

But I will leave this area as soon as a suitable opportunity presents itself.

The new buildings here do not provide the amenities I would like, and the EDDC does not seem to adopt the perspective or vision to which I would like to contribute my income and purchasing power.

Real estate investment needs to pursue three objectives: (1) Affordability, (2) Livability, and (3) Sustainability. For brevity, I will not define these objectives. However, let it be noted that the housing this investment provides is too small to be sufficiently livable and too expensive to be a long-term home for anyone who lives here.

Therefore, this legislation benefits the rich person who sat on the real estate, doing nothing with it and charging an inflated price for it; the rich person who bought it from him and improved it to his sole benefit; but it does not benefit me at all, I cannot participate in this investment. I cannot purchase my part of this real estate for my own home, nor would I want to given the construction techniques, small floor plans, and lacking of any climate-friendly amenities.

In continuing this legislation, I would recommend that the projects utilizing these tax breaks have additional requirements based on their construction so that we don't get shoebox rentals sucking the best parts of the 401k's from foolish, financially illiterate young professionals, with no other housing options.

**The official hearing record will be made public as part of the transcript. This will be posted on the Committee on Ways and Means website at: https://waysandmeans.house.gov/*

Date	May 20, 2024
Name (Print)	**Kelly Dundule**
Company	**Accudyn Products, Inc.**

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means Subcommittee on Tax
Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt

We want to hear your story. Below please provide any personal experiences or general comments about creating more opportunity and prosperity in the American Rust Belt that you wish to be included in the official hearing record.

I am the Director of Finance of a local manufacturing company involved in the construction of tool and die as well as molded plastic components. The expiration of several TCJA provisions have a direct impact on our ability to reinvest in the necessary human capital and technology that keep us competitive on a global stage. Chief among our concerns is the amortization of Section 174 R&D resulting in tax obligations in 2022 and 2023 that more than doubled. The coming expiration of the QBI deduction will be another destructive blow for us. I urge you to work together to resolve these issues that will allow us to continue to grow our business that employs more than 160 individuals in our local community.

**The official hearing record will be made public as part of the transcript. This will be posted on the Committee on Ways and Means website at: https://waysandmeans.house.gov/*

Date	May 20, 2024
Name (Print)	**Jezree Friend**
Company	**Manufacturer & Business Association**

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means Subcommittee on Tax
Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt

We want to hear your story. Below please provide any personal experiences or general comments about creating more opportunity and prosperity in the American Rust Belt that you wish to be included in the official hearing record.

The Manufacturer & Business Association (MBA) is an employer association representing over 3,000 businesses in Pennsylvania. As part of our research with our members, our survey on the passing of the Tax Cuts and Jobs Act found members utilized the Tax Cuts and Jobs Act. The top results were using the savings to invest back into their company, raises/bonuses to employees, and new hires. MBA member Guy Chemical Company told me allowing business owners to deduct the entire cost of purchased assets, new and used in the year the equipment is put into service. This makes asset purchases more affordable.

In desperate need of new equipment, they ordered 3 new chemical mixers expanding mixing capacity by 4 tines, 2 new packaging lines, new pumps, and a new heater/chiller unit. They also furnished a new R&D laboratory that is 5 times larger than the existing lab. Lastly, they acquired a Vermont-based company that specializes in filling sealants into power cans. The initial investment in 2018 was in the millions. Savings in hundreds of thousands of dollars, revenue increase of 30%, and 29 new jobs!

There is no doubt this policy directly benefits the middle class and is an unmissable economic driver.

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Date	May 20, 2024
Name (Print)	**Aaron Lewis**
Company	**SBD, Inc.**

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means Subcommittee on Tax
Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt

We want to hear your story. Below please provide any personal experiences or general comments about creating more opportunity and prosperity in the American Rust Belt that you wish to be included in the official hearing record.

What is the status on H.R. 7024 currently locked up in the Senate? This critical bill that easily passed the House will have a very positive impact on credits to small businesses.

Do you see opportunities to refine tax policy to onshore critical materials to bolster our supply chain resiliency, particularly in the defense industrial base? Such policy could fill critical gaps and reduce lead times to ensure our fleets maintain optimal readiness levels.

A lot of community banks are turning down small businesses for loans & lines of credit. Interest rates are spiking, locking up cash flow to reinvest in the company. Are there steps being taken to curb this trend?

**The official hearing record will be made public as part of the transcript. This will be posted on the Committee on Ways and Means website at: https://waysandmeans.house.gov/*

Date	May 20, 2024
Name (Print)	**Dr. Rhonda Matthews**
Company	**Erie's Black Wall Street**

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means Subcommittee on Tax
Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt

We want to hear your story. Below please provide any personal experiences or general comments about creating more opportunity and prosperity in the American Rust Belt that you wish to be included in the official hearing record.

While the opportunity zones have had an impact, when looking at the geographic maps of where they cover, it is clear that the boundaries often stop at the outskirts of communities that have been historically targeted for systematic, institutional disinvestment. When it comes to rising tides that lift all boats, if a large segment of the population are, literally, left out of the maps of opportunities?

At Erie's Black Wall Street, we work toward community development and re-development of the Black communities here, in part, driven by the support of Black business owners. According to the Minority Business Development Agency (MBDA), Black-owned businesses in the U.S. are major contributors to our economy. They generate $206 billion in annual revenue and support 3.56 million jobs in the U.S. This boom does not just extend to the Black community. There has been a significant increase in self-funding of small businesses by Black people from minority communities in recent years, especially since the pandemic. Small businesses create the most jobs, so while opportunity zones are demonstrably successful, their reach does not extend to the neighborhoods, community, and people whose work is a key, but overlooked, component of Erie's economic development.

**The official hearing record will be made public as part of the transcript. This will be posted on the Committee on Ways and Means website at: https://waysandmeans.house.gov/*

Date	May 20, 2024
Name (Print)	**Kelvin Sanchez**
Company	**Sane Studio Productions**

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means Subcommittee on Tax
Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt

We want to hear your story. Below please provide any personal experiences or general comments about creating more opportunity and prosperity in the American Rust Belt that you wish to be included in the official hearing record.

Legalization of recreational cannabis. Ohio, New York, New Jersey are scooping up Pennsylvania money. The medicinal card subscription isn't making the money that a cannabis tax would.

With that said, a modern dispensary in Erie's opportunity zone will guarantee more money coming in not just to the dispensary but to so many of the restaurants and bars. Also to the newer active spaces.

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Date	May 20, 2024
Name (Print)	**Kyra Taylor**
Company	**Erie's Black Wall Street**

WRITTEN SUBMISSION TO BE INCLUDED IN OFFICIAL HEARING RECORD

Committee on Ways and Means Subcommittee on Tax
Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt

We want to hear your story. Below please provide any personal experiences or general comments about creating more opportunity and prosperity in the American Rust Belt that you wish to be included in the official hearing record.

Erie's Black Wall Street is a nonprofit organization in Erie, PA that focuses on creating equity for Erie's Black and minority communities. One of our primary focuses is Black & Brown entrepreneurs. We provide them with resources, training, and personal/professional development due to the lack of investments and information gatekeeping.

Our other focus is the low percentage (3%) of Black homeowners in this county by providing homebuyer education & downpayment assistance.

Our existence is key as Erie has not only been the poorest zipcode in America, but also the worst place for Black people to live due to the historic disinvestment in our community. According to the U.S. Census, Erie's disparities for Black people are almost double that of the national average. We have been a key instrument of change and need the continued support and financial investment to continue to add to our local economy and strengthen the areas of our community that are weak.

How can your committee help?

**The official hearing record will be made public as part of the transcript. This will be posted on the Committee on Ways and Means website at: https://waysandmeans.house.gov/*

PUBLIC SUBMISSIONS FOR THE RECORD

AFFORDABLE HOUSING TAX CREDIT COALITION

Statement of the Affordable Housing Tax Credit Coalition

In Response to the House Ways and Means Committee
Subcommittee on Tax
Field Hearing on Creating More Opportunity and Prosperity in the American Rust Belt

Monday, May 20, 2024

The Affordable Housing Tax Credit Coalition (AHTCC) is a national trade association comprised of more than 260 housing organizations advocating to expand and strengthen the Low-Income Housing Tax Credit (Housing Credit), our nation's primary tool for financing affordable rental housing. We thank Chairman Smith, Chairman Kelly, and the House Ways and Means Committee Subcommittee on Tax for holding this hearing on creating more opportunity and prosperity in the American Rust Belt. Though the hearing was focused on examining the impact and benefits of Opportunity Zones and other pro-growth small business tax policies, we appreciate the opportunity to provide our perspective on how the Housing Credit can support economic opportunity and prosperity in the Rust Belt by addressing our country's shortage of affordable housing at a time when it is needed more than ever. The Housing Credit has a proven track record of success in addressing this urgent issue in urban, suburban, and rural communities alike. Expanding and strengthening the Housing Credit would not only provide thousands of additional affordable rental homes in the Rust Belt and millions of homes across the nation, but it would generate jobs, additional wages, business income, and tax revenue in these communities. For those seeking economic security in America's rust belt, this sort of economic activity, in addition to the increased accessibility of affordable rental homes, undoubtedly improves social, health, and economic outcomes. [1] [2]

As the only federal program that directly expands the production of affordable housing, the Housing Credit has financed the production or preservation of 3.85 million affordable rental homes, serving nearly 9 million households since 1986. It is founded on a proven public-private partnership model that has provided a high level of accountability and oversight, and is a major reason the Housing Credit has the lowest foreclosure rate of any real estate asset class. [3] [4] The

[1] Rebecca Casciano, Douglas S. Massey, Neighborhood disorder and individual economic self-sufficiency: New evidence from a quasi-experimental study, Social Science Research, Volume 41, Issue 4, 2012, Pages 802-819, ISSN 0049-089X, https://doi.org/10.1016/j.ssresearch.2012.02.005.
[2] U.S. Department of Housing and Urban Development PD&R, 2012, Available at: https://www.huduser.gov/portal/publications/pubasst/MTOFHD.html
[3] ACTION Campaign, Low-Income Housing Tax Credit Impact in the United States, 2023. Available at: https://rentalhousingaction.org/wp-content/uploads/2023/11/ACTION-NATIONAL-NOV-2023.pdf

Housing Credit's role in financing critically needed affordable housing production and addressing a chronic lack of supply that continues to drive up inflation rates and rents makes it foundational to the success of the national and local economies.

As a state-administered program, the Housing Credit provides resources that can be tailored to each state's specific housing needs and ensure that each state is able to develop housing that benefits their communities' specific needs. This includes housing for working families, veterans, seniors, persons with disabilities, and people experiencing or at-risk of homelessness, and those who live in rural and Native American areas. The locally targeted approach and private sector driven delivery are key components of the Housing Credit's long-term success.

In recent years, the need for affordable housing has skyrocketed. For Americans earning the lowest incomes, there is a shortage of 7.3 million affordable and available rental homes. Alarmingly, the number of severely cost-burdened renters has hit an all-time high, with 12.1 million households allocating over 50% of their income to housing expenses.[5] The Housing Credit is an exemplar public-private partnership that provides a market-based solution to this critical shortage of affordable housing. The program is built on a pay-for-performance model, where the private sector bears the risk and no taxpayer money is leveraged until properties are built to high standards and serving income-qualifying tenants. Its proven track record of success and cross-sector design have earned the program longtime bipartisan support since its inception in 1986.

We thank the Ways and Means Committee for ushering through the overwhelmingly bipartisan House passage of The Tax Relief for American Families and Workers Act of 2024 (TRAFWA), which contains two key Housing Credit production provisions that would finance the production or preservation of more than 200,000 additional affordable rental homes through the Housing Credit.[6] These provisions are derived from the Affordable Housing Credit Improvement Act (AHCIA) of 2023 (S. 1557 / H.R. 3238), bipartisan legislation to expand and strengthen the Housing Credit. These provisions would restore the 12.5 percent increase to the Housing Credit allocation that expired at the end of 2021 and reduce the amount of private activity bond financing required to access four percent Housing Credits.

[4] CohnReznick, 2023 Affordable Housing Credit Study, p. 23. Available at: https://www.cohnreznick.com/insights/2023-affordable-housing-credit-study

[5] Harvard's Joint Center for Housing: *America's Rental Housing 2024*: https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2024.pdf

[6] Novogradac Data January 2024: https://www.novoco.com/notes-from-novogradac/tax-legislation-announced-by-tax-writing-chairs-wyden-and-smith-would-temporarily-reduce-50-financed-by-test-to-30-for-2024-2025-restore-125-lihtc-boost-for-2023-2025

AFFORDABLE HOUSING TAX CREDIT COALITION

The AHCIA has earned the support of over half of the entire House of Representatives in the118th Congress, with 224 co-sponsors, split evenly between Republicans and Democrats. There are also 34 bipartisan co-sponsors in the Senate. In the House, the AHCIA is led by Representatives Darin LaHood (R-IL), Suzan DelBene (D-WA), Brad Wenstrup (R-OH), Don Beyer (D-VA), Claudia Tenney (R-NY), and Jimmy Panetta (D-CA). Nearly 80 percent of the Ways and Means Committee, including 19 Republicans and 15 Democrats, have signed on as co-sponsors of the legislation.

Enacting key production provisions of the AHCIA has become even more urgent as affordable housing production has slowed at a time of unprecedented and growing need. The expiration of the 12.5 percent Housing Credit allocation increase at the end of 2021 left state housing agencies with too few resources available to sustain prior levels of affordable housing production. The problem has only worsened since then, especially amidst the growth of shelter and core inflation, interest rates, and insurance and construction costs. Building material costs have risen approximately 40% since 2020, worsening financial barriers to affordable housing development. [7] It is urgent that Congress not only reverse this cut to our primary affordable housing production program, but also increase the Housing Credit allocation as proposed in the AHCIA to truly take on the now chronic affordable housing crisis our country faces.

The other core affordable housing production provision included in TRAFWA would increase the amount of affordable housing that can be financed using private activity bonds (PABs). Specifically, the provision would lower the bond financing threshold for developments financed with PABs (the "50 percent test") to 30 percent (the AHCIA proposed to 25 percent), which would unlock additional Housing Credit equity to further increase affordable housing supply. More than half of the states in the country are oversubscribed or using all of their private activity bond volume caps, including Pennsylvania and other Rust Belt states like Illinois, Ohio, Indiana, New York, and Kentucky. This change would provide states with more flexibility to extend these scarce and highly sought after resources. Enacting the tax bill with these broadly supported proposals would increase affordable housing production by over 200,000 additional affordable homes than otherwise possible over two years, providing sorely needed relief for Americans struggling to afford rent and other essential needs.[8] We commend the House of Representatives for passing these provisions and hope to see them enacted into law soon.

Expanding and strengthening the Housing Credit at this critical time would provide urgently needed resources to finance affordable, safe, quality rental housing and increase the growth of

[7] "*Material Costs Affect Housing Affordability*," National Association of Homebuilders. Available at: https://www.nahb.org/advocacy/top-priorities/material-costs
[8] Novogradac Data January 2024: https://www.novoco.com/notes-from-novogradac/tax-legislation-announced-by-tax-writing-chairs-wyden-and-smith-would-temporarily-reduce-50-financed-by-test-to-30-for-2024-2025-restore-125-lihtc-boost-for-2023-2025

local economies nationwide through direct job creation, additional wages and business income, better housing closer to employers, and increased economic mobility for more Americans. Throughout the over 37-year history of the program, the Housing Credit has supported more than 6.3 million jobs, generated more than $716 billion in wages and business income, and over $257 billion in tax revenue.[9]

Housing Credit developments support a thriving workforce, as they are generally required to serve residents below 60 percent of the area median income (AMI). For example, in Erie County, Pennsylvania, where this hearing was held, the AMI is $80,500, meaning construction, restaurant, hospitality, education, childcare, retail, farm, and healthcare workers[10] (all essential to a thriving community) would qualify to live in Housing Credit properties.[11] [12] Where wages do not match the skyrocketing cost of housing and where hardworking families nationwide are increasingly hit by lengthy commutes to work just to find housing they can afford, an increase in the availability of affordable housing will help increase the economic vitality of communities to support and attract a workforce.

Housing Credit developments also help revitalize low-income neighborhoods, contributing to rising home values and lowering crime rates.[13] It is a stabilizing force for families, increases local purchasing power, and produces better societal outcomes for families and communities.[14] A recent study found that each additional year spent in Housing Credit housing as a child is associated with an average 4.3 percent increase in the likelihood of attending a higher education program for four years or more, and a 5.7 percent increase in future earnings.[15] Additionally, Housing is one of the most well-researched social determinants of health and, among other social factors, influences the health of families across the nation. [16] Those who pay too much for housing, live in inadequate conditions, or lack access to housing altogether are at an increased risk of experiencing negative health outcomes, such as mental health conditions, poor maternal and infant health, chronic disease, and premature death. Affordable housing created by the

[9] ACTION Campaign national factsheet https://rentalhousingaction.org/wp-content/uploads/2023/11/ACTION-NATIONAL-NOV-2023.pdf
[10] Pennsylvania Occupational Wages Erie County Labor Market Area, May 2023. Available at: https://www.workstats.dli.pa.gov/Documents/Occupational%20Wages/County/Erieco_ow.pdf
[11] Fannie Mae Area Median Income Lookup Tool: https://singlefamily.fanniemae.com/news-events/updated-amis-2023
[12] Pennsylvania Occupational Wages Erie County Labor Market Area, May 2023. Available at: https://www.workstats.dli.pa.gov/Documents/Occupational%20Wages/County/Erieco_ow.pdf
[13] *Who Wants Affordable Housing in their Backyard? An Equilibrium Analysis of Low Income Property Development*, Diamond and McQuade, 2017
[14] Enterprise and LISC, *Affordable Housing for Families and Neighborhoods*: https://www.lisc.org/media/filer_public/81/84/8184dd3f-ea67-40f2-82fb-6f8d7687df8f/052417_report_affordable_housing_families_neighborhoods_enterprise.pdf
[15] *Does Growing Up in Tax-subsidized Housing Lead to Higher Earnings and Educational Attainment?* Elena Derby, 2021. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3491787
[16] "*Housing And Health: An Overview Of The Literature*," Health Affairs Health Policy Brief, June 7, 2018. DOI: 10.1377/hpb20180313.396577

AFFORDABLE HOUSING TAX CREDIT COALITION

Housing Credit helps ensure that fewer people experience the negative health impacts of all degrees of housing instability. Finally, the Housing Credit can facilitate economic mobility by allowing tenants' income to increase without the risk of losing their housing, providing encouragement for residents to increase their earnings. [17]

In addition to urging the Senate to consider TRAFWA, movement on the full AHCIA remains a priority as a bipartisan solution for addressing the nation's acute need for affordable rental housing. Building on the TRAFWA provisions described above, the AHCIA also contains other important production provisions, such as additional state allocation and "basis boosts" to make more developments financially feasible for communities that are harder to reach, including rural and tribal communities, and extremely low-income tenants. The bill would also remove barriers to affordable housing preservation, streamline program rules, and promote efficiency. Enactment of the AHCIA will also help produce stable workforce housing in a broad range of areas, from fast-growing cities to farmworker housing in rural areas, all while supporting economic growth and opportunity in communities nationwide.

The main production provisions of the AHCIA would finance the production or preservation of nearly 2 million additional affordable rental homes than otherwise possible. This includes nearly 45,000 such homes, 68,000 jobs, $7.6 billion in additional wages and business income, and $2.65 billion in increased tax revenue in the state of Pennsylvania.[18]

With Congress approaching the expiration of critical tax policies enacted as part of the Tax Cuts and Jobs Act in 2017, it is essential that affordable housing remains a priority and that AHCIA provisions are incorporated into any tax legislation that arises. The Housing Credit is vital to addressing the nation's worsening affordable housing crisis and enhancing economic opportunities. Not only does the Housing Credit promote stability, growth, and better education and health for low-income families and individuals, it promotes stability and economic growth for communities in urban, suburban, and rural areas alike.

We respectfully urge the Ways and Means Committee members to continue to support the AHCIA's provisions, as part of forthcoming efforts to extend and build on the 2017 tax legislation. We thank you for your continued leadership and look forward to continuing to collaborate with you and the entire committee on these priorities.

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[17] *The Links Between Affordable Housing and Economic Mobility.* Carolina Reid, 2018*:* https://ternercenter.berkeley.edu/wp-content/uploads/pdfs/Links_Between_Affordable_Housing_and_Economic_Mobility_.pdf

[18] Novogradac Data May 2023: https://www.novoco.com/notes-from-novogradac/lihtc-pab-provisions-newly-reintroduced-ahcia-could-result-nearly-2-million-additional-affordable

IMPACT

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Steady Stream of Investments

May 20, 2024 Marti Thomas

When residents in Erie and Philadelphia – and various other cities and counties throughout Pennsylvania – drink a glass of clean water, life insurance rarely comes to mind.

But maybe it should. Life insurers invest significantly in utilities in the state, especially water and sewer authorities. For example, life insurers currently have:

- $183 million in Philadelphia for water and wastewater

In all, life insurers currently have $488 million invested in bonds issued by utilities in the state – a small portion of the $244 billion overall the industry invests in the Pennsylvania economy.

All industry investments are designed to provide safe, solid returns to help companies pay life insurance benefits to policyholders, retirement income to annuity owners, and benefits to long-term care and disability income insurance policy owners.

At the same time, industry investments go a long way to support and build communities. The city of Erie, and Erie County, provide a good example of the way life insurers finance important projects in cities, towns and counties throughout Pennsylvania and throughout the country.

Life insurers have nearly $6.5 million invested in mortgages in apartment buildings and multifamily complexes in Erie. That's in addition to $4.9 million in mortgages for 54 single-family homes, with an average $91,300 of remaining principal. Put simply, life insurers are helping families call Erie and Pennsylvania "home."

Also in Erie, life insurers currently have:

- $6.5 million invested in bonds issued by the city for capital improvements;
- $4.2 million in mortgages for lodging.

Life insurers' investments are woven quietly and effectively into communities in ways that are not often recognized. Like the foundation of a building, life insurers are a foundation of economic and financial stability from Erie in Northwest Pennsylvania to Philadelphia in Southeast Pennsylvania.

Infrastructure, Investment & The Workforce

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Marti Thomas

Marti Thomas serves as Vice President, Tax, Trade & International for the American Council of Life Insurers. In this capacity, she is actively involved in tax, trade & international issues on Capitol Hill that impact the life insurance industry. Previously, Marti worked on Capitol Hill, the Department of the Treasury, and in the private sector.

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SEC. 102. CERTAIN FORMER INDUSTRIAL TRACTS PERMITTED TO BE DESIGNATED AS OPPORTUNITY ZONES.

Section 1400Z-1 of the Internal Revenue Code of 1986, as amended by section 101, is amended by adding at the end the following new subsection:

BROWNFIELD OZ DESIGNATION

Good afternoon: Mr. Chairman and other members of the Committee. I want to thank you for the invitation and opportunity to speak to you on the importance of the Amendment before you. More specifically, I would like to point out the potential economic and social impact of allowing the Governors of this United States the ability to designate industrial tracks as Opportunity Zones. It is rare that when you identify a property as a “former industrial tract” that it is not considered, in fact, a Brownfield site.

In the early 1990’s when the EPA first coined the term “Brownfield” it generally pertained to environmentally impacted abandoned urban industrial sites many of which were developed in the late 19th and early 20th centuries. They became blights to their neighborhoods and a threat to public health. Private developers would not take on the environmental liability no matter how interesting the potential repositioning of the site was. And the public agencies could not afford to do so. Therefore, the sites remained idle.

By the mid 1990’s things began to change. I was lucky to be a part of the transition and the term Brownfield took on a much broader definition. EPA now defined a Brownfield property as any property “the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.” In 1995 EPA created its Brownfield Program but there was much more to do in order to attract the kind of private investment necessary to execute its development. What happened was a group of representatives of the environmental agencies, environmental engineers, private developers, bankers and insurance companies came together to determine what was needed to allow investment while protecting developers and innocent owners from existing environmental liability.

The first step was for the agencies to create risk-based clean-up standards. Until then the only standard was background, which meant the state of the property before becoming contaminated. To do so, in almost all cases, would be economically impossible. With risk based standards each standard would be based upon the intended use of the site. Now a development plan could be calculated, insured and banked. My company, Brownfields Recovery Corp. of Boston, was formed in 1996. Over the years we acquired, remediated and repositioned sites from companies such as Bayer-Agfa, Kellogg Brush, Northeast Utilities and Alcoa. The former coal gasification plant owned by Northeast Utilities on the Stamford, CT. waterfront became what is a multi-million square foot mixed use development called Harbor Point. Once the poster child for an abandoned health hazard became a shinning example of a Brownfield redevelopment leaving a bustling economic residential and commercial hub on the harbor of Stanford. Harbor Point - BLT Live Work Play.

Why is this amendment so important? There are thousands of these Brownfield Sites still untouched throughout the United States sitting idle and remaining a blite to communities. The typical fund or family office development investor has a 3-5 year timeframe window for investing and return of and on investment. Because of the unique challenges of Brownfields remediation and development, the window for investment and return tends to be longer and require more patient capital.

Opportunity Zone capital was made for Brownfields redevelopment. The 10-year hold requirement allowing tax deferment and eventually a potential tax free upside benefit will allow for very attractive investment. Thus, creating both short term and long-term family wage jobs, removing environmental threats, returning blight sites to productive ones ,adding to the municipal tax rolls and benefit of society.

Every Governor should be eager for its passage.

Thank you.

Jack Thomas