

Testimony of the Honorable Sen. Sam Brownback

to the Senate Finance Committee

Sioux City, Iowa

August 25, 2004

Over 140 years ago, President Abraham Lincoln signed into law the Homestead Act, landmark legislation that helped populate rural areas in the Great Plains. Back in 1862, the federal government struck a one-time bargain with people who took a chance and settled out West. In exchange for a 5-year commitment to stay and develop the land, the original Homestead Act offered these settlers 160 acres of free land and the promise of opportunity.

Today, America's Heartland is facing massive depopulation. Many rural communities are struggling to survive. This shouldn't be the case. Our rural communities are some of the strongest in the nation. But people who are from these areas know it is virtually impossible to start, maintain or grow a business in an environment where the overall economy is shrinking, where current and potential customers are leaving, and public and private investments are falling.

Many of us here in this room are products of a rural American upbringing, myself included. Some of the greatest moments in my life have been spent in rural Kansas with my family and friends. Most of you have your own memories of growing up in small towns around America that you may like sharing with your children and grandchildren, whether it be by actually living in rural America or by telling stories of life

in your hometown, where you had 10 people in your graduating class. Unfortunately, the growing trend that we recognize is the depopulating of rural America and these “small town” lifestyles that we have so much respect for. With this respect in mind we must work harder to restore rural America and repopulate small communities that are suffering from a high rate of out-migration.

A high out-migration county is defined as any non-metro county that has suffered net out-migration of at least 10% over the past 20 years. The Midwest is plagued by this trend. Over 50% of the counties in the Midwest region suffer from high out migration. When compared to the national average of 21%, it's easy to see that the Nation's Heartland needs help. Some states have it much worse. In North Dakota, almost 90% of the counties have experienced out-migration. Here in Iowa, 55 of the 99 counties (or 53%) are determined to be out-migration counties. Nearly fifty percent of the counties in my state of Kansas have been the victims of this out-migration.

We have faced this type of problem before in America. In the 1970s, metropolitan urban cores across America were suffering from out-migration similar to what we are seeing today in rural America. Tax incentives were put in place to enhance economic development and it revitalized our nation's urban cores. It worked back in the 1970s for the urban core and it can work today for rural America. We are simply looking to do for rural America what we did for urban cores back in the 1970s.

There is a role that we can all play in the restoration of rural America at the Federal level that has been proven successful in the past. That is why I am honored to

cosponsor the New Homestead Act, which will help to alleviate the problem we face in rural America.

The main objectives of the New Homestead Act are:

- (1) to provide new and updated homestead opportunities for individuals to live, work, and prosper in high out-migration counties;
- (2) to offer new incentives for businesses to locate, grow, and profit in high out-migration counties and
- (3) to improve access to capital for business development in high out-migration counties.

As with the original Homestead Act, this bill seeks to reward those individuals willing to take a risk and locate in a high out-migration county. It says to these new homesteaders, “If you’re willing to make a 5-year commitment to live and work in a rural community that’s shrinking in population, we’ll give you every opportunity to get a college degree, buy a home, and build a nest egg for the future.” It does this through:

- **Loan Repayment:** forgive up to 50 percent of college loans for recent graduates who move to these communities (up to a maximum of \$15,000);
- **Home Tax Credit:** provides a \$5,000 tax credit for all home purchases in these areas (or 10% of the purchase price, whichever is lower);

- **Protecting Home Values:** allows losses in home value (from a principal residence) to be deducted from federal income taxes; and
- **Individual Homestead Accounts:** these accounts help build savings and increase access to credit for residents in high out-migration counties. Individuals could contribute a maximum of \$2,500 per year, for up to 5 years, as well as receive a government match of 25-100%, depending on their income. Savings could grow tax free and, after 5 years, be tapped into for small business and education expenses, first-time home purchases, and extraordinary medical expenses. And all funds would be available upon retirement.

Included in the bill are also Incentives for Businesses through rural investment tax credits. My colleagues in the Senate had the foresight and good judgement to attach these two provisions in the FSC/ETI Bill that passed the Senate on May 11 with a vote of 92-5. These two provisions are:

- **A Rural Investment Tax Credit (RITC):** This targets investments in high out-migration counties. Under this provision:
 - States receive \$185,000 of these credits per high out-migration county. The state then allocates these credits to businesses that move to or expand in a high out-migration county. Businesses then use these credits to offset the cost of newly constructed or existing buildings. Over a ten year period, businesses can use these credits to reduce their taxes by as much as 80% of their total

investment.

The other provision that passed the Senate is the...

- **Micro-enterprise Tax Credits**

These tax credits are for small businesses (5 or fewer employees). States may choose to allocate up to 10% of their rural investment tax credit allocation to qualifying start-up or expanding small businesses. These businesses would then use these credits to offset the cost of new funding needed for business expansion, which could reduce their taxes by 30% of their qualifying new investment.

The most effective and desirable economic development strategy for most agricultural communities is small entrepreneurship – development based on locally owned, owner operated small businesses. This has been proven to work in the agricultural areas that have not been successful in attracting large employers from outside areas.

In the agricultural counties of the Midwest, over 70% of the net job growth stems from non-farm self-employment. These are people who create their own job by starting a business. Rural Americans have a passion for entrepreneurship. Farm and ranch counties in the nation's Heartland have several times the rate of self-employment as metropolitan counties. Given the chance, they are highly innovative. The New Homestead Act gives rural Americans that chance.

Together these two provisions are projected to cost \$641 million over ten years.

However, this should not be looked at as an expenditure. This is an investment in the rural communities that we all cherish and hold close to our heart. The return on this investment is a restored rural America with expanded economic opportunities and a

higher quality of life. I applaud the Senate for passing the Rural Investment Tax Credit provisions, however simply building more buildings is not our highest priority. There are too many empty buildings already. We need to put our investment in small business development and people.

The final piece of the puzzle lies in a Venture Capital Fund. Unfortunately, venture capital and other start-up funding is quite limited in rural areas with high levels of out-migration. This section would help such business ventures attract the equity funding they need by creating a \$3 billion venture capital fund that invests in high out-migration counties. This fund would be funded at \$200 million per year, for 10 years, and require a yearly match of \$50 million from states and of \$50 million for private investors.

A healthy and growing rural economy is critical to our nation's success. The New Homestead Act will help re-establish rural America on firm economic footing. All of America needs the Heartland's economy to be successful, therefore America needs this Act. I am fighting for this because this is of great concern to me and I believe it is time for us to take a look back at our roots. Please join me in the fight to restore rural America. All too often, small communities are overlooked for the hard work, strong values, and great people they produce. It is time to show our appreciation for rural America and refocus on their restoration and development. Thank you for giving me the opportunity to speak this morning.