

**Prepared Statement by Senator Chuck Grassley of Iowa
Chairman, Senate Judiciary Committee
Hearing titled “The Distortion of EB-5 Targeted Employment Areas:
Time to End the Abuse”
Wednesday, April 13, 2016**

When Congress passed the omnibus appropriations bill four months ago, we reauthorized the EB-5 immigrant investor program for the remainder of the fiscal year. Unfortunately, we reauthorized a program that remains deeply flawed because the omnibus bill failed to include much needed reforms. At the time, I gave a speech on the Senate floor explaining that the next few months would be spent conducting oversight of the program and exposing the truths about how it is being used. This hearing is part of that quest.

We held a hearing in February related to fraud, abuse, and national security vulnerabilities in the EB-5 program. We heard from U.S. Citizenship and Immigration Services and the Securities and Exchange Commission. At that hearing, I encouraged the agencies to do more to exercise oversight and to tighten up the program using the authorities they already have. U.S. Citizenship and Immigration Services has responded to that call and is working on regulations that will, I hope, improve the program. I have given them several suggestions and personally expressed to Secretary Johnson my desire to work with him in this effort.

Today, the committee will learn about Targeted Employment Areas, a term used in the Immigration and Nationality Act to describe rural areas and areas with high unemployment in which EB-5 investments are made. The law authorizes a lower investment threshold for such areas in order to incentivize foreign nationals to invest there.

Targeted Employment Areas have been part of the EB-5 program since the beginning. Senator Gramm offered this concept as an amendment in 1989 to the Immigration Act of 1990.

Supporting him, Senator Boschwitz stated, “I see no reason to shut out willing investors while our small towns and inner cities across America are facing hard times.” He said the Gramm amendment authorizing Targeted Employment Areas would benefit rural areas that have difficulty attracting capital for economic growth.

Senator Paul Simon – who served on this committee – said on the Senate floor, “[W]e are mindful of the need to target investments to rural America and areas with particularly high unemployment—areas that can use the job creation the most. For this group, we make available at least 3,000 visas annually. America’s urban core and rural areas have special job creation needs and this visa program is sensitive to that in this way. Investments in this area must still create 10 jobs but require an investment less than \$1 million. The Attorney General is authorized to set the required investment at a lower amount but at least \$500,000. Clearly, the closer the Attorney General sets this to \$500,000, the more we can encourage investments in these critical areas.”

Though Congress intended for most EB-5 investments to be made at the \$1 million level, nearly all EB-5 investments today are made at the \$500,000 level in Targeted Employment Areas. And, that's just not right.

As a result, cities in Georgia, North Carolina and Minnesota compete with Beverly Hills, Miami and New York City. It's hard for smaller states and cities to compete with the glitzy hotels and luxurious condo projects. In Iowa, we're trying to create jobs through value-added agriculture, biofuels, and ag-based manufacturing. Wealthy investors understand that the real estate market is booming, and see the dollar signs, big returns, and the green card that comes with it.

Gerrymandering the boundaries of Targeted Employment Areas allows very affluent areas to benefit from the lower investment threshold, resulting in little incentive to invest EB-5 funds in distressed or rural areas, as was envisioned by Senators Simon, Gramm and Boschwitz. This is done by drawing the Targeted Employment Area to include a long chain of census tracts linking the affluent area at one end with at least one census tract, perhaps many miles away, which includes low-income residents or subsidized housing. One TEA designation has an astonishing 190 census tracts covering 200 miles in order to include far-away economically distressed areas.

This problem could be fixed tomorrow if the Obama administration had the backbone. You see, the states control the designation of Targeted Employment Areas. State officials will gerrymander the boundaries of Targeted Employment Areas any way they can to ensure the flow of investment money into their State. Unfortunately, the administration refuses to challenge the designations. This administration has a chance now to change this and bring the program back to the way Congress envisioned.

Targeted Employment Areas are at the heart of the controversy about EB-5 and the principal reason we were unable to pass common sense reforms last year.

Yet, we proposed a lot of good reforms last year. For example, the Grassley-Leahy-Conyers-Goodlatte proposal, for the first time, incentivized EB-5 investment in manufacturing and infrastructure projects. Manufacturing employers create direct, long-term, quality jobs in communities. As for infrastructure, we have a lot of needs in Iowa and the Midwest, including rail and river transportation, wastewater treatment plants, and bridges. More EB-5 capital in infrastructure projects would reduce the burden on taxpayers, especially when local governments are up against federal mandates. We also proposed reallocating the visas – carving out enough for rural and high unemployment areas, but leaving more than half of the visas for projects that come in at the higher investment level.

Yet, the supporters of the status quo proposed ideas that would continue to steer investments to luxurious real estate developments in affluent areas. They proposed allowing Targeted Employment Areas to continue to be gerrymandered based on complicated commuter patterns from remote census tracts, but without evidence that new jobs are actually being created in the communities that people are allegedly commuting from. They even proposed having just one investment level, which does nothing to incentive foreign investors to put money in areas that need it.

My hope is that today's hearing will shed light on the problem and why the status quo only benefits a few areas of the country.

I'm proud that we have an Iowan here today to talk about my home state's challenges. Iowa – and surrounding states – are at a clear disadvantage.

We have a good mix of witnesses here today from all over the country. I want to thank them for coming today. Allow me to introduce our very distinguished first panel.