THE ADMINISTRATION'S STRENGTHENING AMERICA'S COMMUNITIES INITIATIVE AND ITS IMPACT ON ECONOMIC DEVELOPMENT

(109–8)

HEARING

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ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS AND
EMERGENCY MANAGEMENT

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

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CONTENTS

TESTIMONY

PREPARED STATEMENTS SUBMITTED BY MEMBERS OF CONGRESS

PREPARED STATEMENTS SUBMITTED BY WITNESSES

SUBMISSIONS FOR THE RECORD

ADDITIONS TO THE RECORD

THE ADMINISTRATION'S STRENGTHENING AMERICA'S COMMUNITIES INITIATIVE AND ITS IMPACT ON ECONOMIC DEVELOPMENT

Thursday, March 17, 2005

HOUSE OF REPRESENTATIVES, COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE, SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS AND EMERGENCY MANAGEMENT, WASHINGTON, D.C.

The subcommittee met, pursuant to call, at 2:03 p.m., in Room 2167, Rayburn House Office Building, Hon. Bill Shuster presiding.

Mr. SHUSTER. The Subcommittee will come to order. I am glad to see we have a nice crowd here today. This is my first subcommittee hearing, and I didn't realize there would be so much media attention out in the hall. So I will be a little bit nervous when I walk out of here. I have been accused of being on steroids, but that is not the case.

Before we begin today's hearing, I would like to take a moment to welcome the members of the Subcommittee, and the several freshman members welcome them to Congress. I expect this Congress to be very busy with several important issues having arisen and, of course, our normal workload that we have, and I hope we can be as productive in the coming Congress as the Subcommittee has been in the previous years.

I would also like to say I look forward to working with the Ranking Member, Mrs. Norton. Together I believe we will be able to aggressively advance a bipartisan agenda that realizes the greatest benefits for the American people, while at the same time protecting this committee's jurisdiction.

I would also like to welcome the chairman of our Coast Guard Committee. I thought I saw him in. Okay, I won't welcome him, then, until later.

I would ask unanimous consent, if Mr. LoBiondo comes today, which we expect him to, that he be able to sit with the Committee and ask questions of our witnesses. Without objection, so ordered.

This is a very important issue to our Committee, with far-reaching impacts both in our jurisdiction and the substantive subject matter. As such, I would ask unanimous consent that the chairman and the ranking chairman of the full committee be allowed extend their opening remarks to 10 minutes if they so desire. Without objection, that is so ordered.

With that, I would now like to turn to the topic of today's hearing, that being the Administration's Strengthening America's Communities initiative and its impact on economic development.

In advance of its fiscal year 2006 budget, the Administration announced a sweeping reform of the Federal Government's economic and community development efforts entitled "Strengthening America's Communities." This new program, which will be housed at the Department of Commerce, would consolidate programs from across five departments and agencies into a new grant program that includes block grants, incentive grants, and opportunity zones.

The Administration has given four primary goals for this effort: first, to better focus resources on those communities most in need; second, to provide greater flexibility to recipients; third, to implement new performance and accountability measures; and, fourth, to eliminate under-performing and duplicative programs.

I applaud these goals, since it seems to me that the worst thing we can do is remained locked into an existing way of thinking that does not recognize the fact that since many of these programs were created, the economy and the world has changed, so our Federal programs would change with them. However, we must change the way we think about economic development to stay current with the economy and the world. That does not mean that we should abandon proven means of economic development.

Since its creation, this committee has focused on improving the Nation's infrastructure. We do this not just because we like to build roads, bridges, airports, and water systems; we believe, and history has borne this out, that economic development will only occur in those places where there exists safe and stable infrastructure.

If we were to look at satellite pictures of the United States at night, we would see, of course, bright lights emanating from our large population centers. But even more important and instructive for this debate is to look at what connects those bright spots. It is slightly less bright spots arranged in neat lines, crisscrossing the Country. These lines almost exactly track the interstate highway system. And if we were to zoom in on those bright spots, we would see development along State highways and rail lines and surrounding airports, because while we like to talk about being an interconnected global economy, that connection begins with access roads to an industrial or business park.

While infrastructure is fundamental to economic development, that is, it is equally fundamental and is something that we must allow for in whatever proposal moves forward, is consistent funding for economic development planning. While I applaud the notion of awarding monies competitively and to reward success, we must ensure that we are not creating a permanent underclass of communities that cannot compete because they do not have the resources to develop integrated economic development plans.

For this new program to succeed, it is going to have to be built on the basis of a successful model. If we are interested in finding out exactly what it takes to ensure a successful economic development program, we need to go no further than the Economic Development Administration, which has achieved success both programmatically and organizationally.

In fiscal year 2003 alone, EDA's projects leveraged an average of $22 per every Federal dollar invested and created 88,000 jobs. This is programmatic success. But EDA should also be the basis model for the administration of the new program. After all, according to

the Office of Management and Budget's own performance ratings, EDA was one of only two agencies to receive a "moderately effective" rating, the second highest score. And the only thing that kept it from receiving the highest score was the duplicative activities of other agencies' programs.

These are just a few of the very important issues I hope to address at today's hearing. I know that, as a committee, there has been a lot of interest expressed about this very significant program change, and as a committee with a significant role in economic development, we plan to remain actively involved as this proposal moves forward.

I look forward to working with the Administration and all interested members in drafting legislation on this groundbreaking initiative.

We have a wonderful lineup of witnesses that I hope we will be able to provide firsthand knowledge of the proposal itself, its basic rationale, as well as some perspective of the impact it would have, as well as factors that we should keep in mind as we go forward in discussing this proposal.

I would especially like to welcome Assistant Secretary Sampson, who will be appearing on our first panel this afternoon. Secretary Sampson I believe has been a very productive leader at EDA, and I thank him for that leadership. The agency has reoriented itself to more effectively meet the challenges of the twenty-first century economy, while at the same time dealing with difficult budgetary limitations. Finally, during the 108th Congress, his efforts were an integral part of the reauthorization of EDA.

With that, I would like to recognize our Ranking Member, Mrs. Norton, from the District of Columbia for her opening statement.

Ms. NORTON. Thank you very much, Chairman Shuster. I am delighted to join you today for our first meeting, and I am particularly pleased that you have focused the Subcommittee on the issue of economic development. As a member of this Subcommittee for 15 years, who knows you and your work in the House, I am especially pleased that you have become Chair of this Subcommittee. As you know, this committee and subcommittee have a rich history of bipartisanship. We have benefitted from a long line of chairs like yourself who have worked to ensure that all members and their ideas are included for consideration and dialogue, and that our policies and programs benefit all parts of the Country.

Precisely because of our bipartisan tradition, I am concerned that in the President's budget proposal for fiscal year 2006 the Administration is proposing an approach that undercuts these productive roles. The Administration proposes to consolidate 18 economic development programs into one program to be housed in the Department of Commerce. Further, the Administration is proposing to reduce funding for these programs by almost $2 billion. My greatest concern is that the Office of Management and Budget apparently selected these programs without fully analyzing the impact on distressed and under-served communities.

Of longstanding and special interest to this Subcommittee has been our jurisdiction over the programs of the Economic Development Administration, which is an agency inside the Department of Commerce. This subcommittee has played a pivotal role in making

these programs what are regarded today as among the best and most productive in the Federal sector. Barely six months ago, this Subcommittee held hearings and worked with the Senate and the Administration to pass S. 1134 into law, which reauthorized appropriations for EDA for five years. Now it appears that the Administration wants to head off in a totally different direction and do away with an agency that it has just praised as particularly effective and efficient. I am eager to hear from Dr. Sampson to learn what accounts for this U-turn regarding EDA, and to hear the details of the Administration's plan.

As always, I am pleased to have witnesses from across the Country who actually work with economic development districts and, according to the documented record of our hearings and the investigation of our Subcommittee, have done an exceptional job.

Thank you, Chairman Shuster, for calling this hearing. I look forward to working with you as we work through this and other initiatives this session. Thank you, Mr. Chairman.

Mr. SHUSTER. Thank you, Ms. Norton. I appreciate those kind words.

I would now like to recognize Mr. Dent for a brief opening statement.

Mr. DENT. Thank you, Mr. Chairman.

Mr. Sampson, good afternoon.

Mr. SAMPSON. Good to see you again.

Mr. DENT. I have obviously met with you before on this issue, on the Government Reform Committee Subcommittee on Federalism and the Census, and I guess my message today is the same as it was the other day. It would have been helpful if some more of the stakeholders were engaged in this process, particularly in our urban area. As I mentioned before, you have made a strong case, I believe, perhaps to move some of these programs over into Commerce, particularly brownfields and enterprise zones. I think one can make a logical argument that they ought to be over in Commerce. But CDBGs, CSBG and some of the other programs I really believe it is incumbent for the Administration to come back to us at some point with some strong input from those stakeholders, try to engage them in this process.

In my State, we had done something similar, where we had merged basically our community department—it is called Partner Community Affairs—with our Department of Commerce and made one big Department of Community and Economic Development. It worked out rather well, but we had engaged the stakeholders in this process. And at least with respect to some of these programs I don't think that case has yet been made, and I would just look forward to hearing some more from your department as we move along in this budget process.

Thank you.

Mr. SHUSTER. I would now like to recognize Mr. Michaud.

Mr. MICHAUD. Thank you very much, Mr. Chairman. I want to, first of all, congratulate you on assuming the chairmanship of this committee, and I have great confidence in your leadership. You are working with an extraordinary ranking member, Ms. Norton, and I know that we will have a productive and valuable session together.

I will close and would ask unanimous consent to have my opening remarks submitted for the record so we can proceed with the hearing.

But I do want to say that I appreciate Dr. Sampson's presence here today. Dr. Sampson, actually earlier in the week, yesterday told me that the Administration wants to work with Congress to be a full partner in this effort to help shape the future of our economic development programs. I appreciate this cooperation and flexibility, and I personally value Dr. Sampson's candor and openness and willingness to work with the Committee to help craft a program that will truly help our communities all across the Country. So thank you for coming here today.

And with that, Mr. Chairman, I would ask unanimous consent to have my remarks placed in the record.

Mr. SHUSTER. Without objection, so ordered.

I ask unanimous consent that all of our witnesses' full statements be included in the record today. Without objection, that is so ordered.

And since your written testimony has been part of the record, the Subcommittee would request that you limit your opening statement to five minutes.

I would also encourage members of the Committee—I am going to try to enforce the five minute rule. On so many committees on the Hill here we go over that, so I am going to be a stickler on it. That is one reason I wanted to give Mrs. Norton and Mr. Oberstar, and if Mr. Young were here, extra time to open up.

We have two panels today of witnesses. Our first panel we have only one witness, Dr. David Sampson, the Assistant Secretary of Commerce for Economic Development, who will represent the Administration's perspective as the person leading this initiative.

Dr. Sampson, thank you for being here, and proceed.

STATEMENT OF THE HONORABLE DAVID A. SAMPSON, ASSISTANT SECRETARY OF COMMERCE FOR ECONOMIC DEVELOPMENT

Mr. SAMPSON. Mr. Chairman, thank you. Ranking Member Norton, good to be back with you again.

Let me say I am pleased to have the opportunity to discuss the President's Strengthening America's Communities initiative with you, and what I want to do is briefly highlight the underlying principles behind the initiative, explain why we need substantial reform, and, finally, articulate the main points of the initiative.

While America's economy is strong and getting stronger, everyone recognizes that that economic strength is not felt equally throughout the Nation. As members of this committee are certainly well aware, in low-income communities and in communities where traditional industries do not employ as many people as they did a generation ago, opportunity can appear to be far out of reach. And the President believes that these communities can make the transition to vibrant, strong economies and communities because of the entrepreneurial spirit of the people who live there, and he also believes that the Federal Government has an important role to play.

He believes that the role of Federal Government in its economic and community development programs should be to create the fun-

damental conditions for economic growth and the creation of more and better jobs and viable communities, and thereby reduce a community's reliance on perpetual Federal assistance.

In terms of why we need reform, in total, the Federal Government currently administers 35 different programs spread across seven different cabinet agencies. These programs have a high degree of overlap and duplication, little coordination among them. They have weak accountability measures and, according to the OMB PART analysis, many of them simply cannot demonstrate that after a history of 30 to 40 years, they have made a meaningful contribution to improving or achieving community and economic development goals.

We seek to greatly simplify access to the Federal system by consolidating 18 of these programs into a single unified grant program budgeted at $3.71 billion in the President's budget request. The grant program will have two components. The first is a formula-based grant program, which would represent the bulk of the $3.71 billion. The formula would be based on factors such as levels of poverty, disinvestment, unemployment rates, to ensure that the most distressed communities in America have access to these funds. The second component is the Economic Development Challenge Fund, which is designed to be a bonus program modeled after the Millennium Challenge Account, that would reward those communities where there is strong business and elected leadership and community leadership to actually improve the economic performance and remove barriers to growth.

Clearly, we recognize that there is a lot of work ahead of us with regard to implementing this initiative. The President very intentionally submitted this as a proposal in his budget. We are thankful to have the opportunity to work with Congress before the Administration submits specific legislation. We are also creating a Secretarial Advisory Committee to advise the Administration on critical components of the legislation before it is submitted to Congress.

And with that, Mr. Chairman, I will conclude my summary remarks, and I would be happy to respond to your questions, as well as that of the Committee.

Mr. SHUSTER. Thank you very much, Dr. Sampson. You and I have had the discussion and I have expressed my concern to you that setting up a new agency, for all intents and purposes brand new, although you are bringing in other agencies from different parts of the administration, my great concern is that we are setting up something that is brand new and that we have seen from Homeland Security, the TSA, that that brings with it problems, trying to bring these bureaucracies together. The one thing that I recommended to you is we use the EDA as the model and let everything fall into that.

But another question I have is I know there is duplication and there is a lot of overlap in these programs. Did we think about, instead of consolidating to this huge new program, maybe looking at them individually smaller and taking out the duplication and streamlining them without bringing them all together?

Mr. SAMPSON. Let me respond to that on several levels.

While certainly there are lessons to be learned from the creation of the Homeland Security Department, there are critical and fundamental differences between this proposal and that. While that was putting together different agencies that maintained their own distinct identities, this proposal consolidates funding from 18 different agencies. It would remove the individual stovepipe of funding among these different agencies, and those statutory authorities will disappear and reside in the one new agency as a fundamentally new creation. That program will have broad flexibility, in fact, much more flexibility than EDA currently has under its statutory authority. It would be fundamentally a block grant program, where these funds are block-granted to States and communities, as opposed to communities and States having to approach EDA for individual approval of every single project. So we believe that that is a fundamental difference that calls for the creation of this new entity within Commerce.

Now, in reality, we believe that trying to solve the systemic problems on a piecemeal or case-by-case basis is really not an optimal or a workable solution; it would require 18 different legislative fixes and is, we believe, wholly inadequate to be able to solve the systemic problems that we currently face. At the end of the day, the Administration wants to work with Congress on the best strategy to fundamentally overhaul this current hodgepodge of programs and to pass legislation that fundamentally improves assistance to our neediest communities in America.

Mr. SHUSTER. Again, I don't want to belabor the point, but as we move forward on this, I believe we will take close and pay close attention to what is set up, because I think we had the same idea with Homeland Security. And you bring the different cultures from the different departments together, and they tend to, at times, not merge or meld like they should. So we need to keep close look at that.

It is my understanding also that you are convening an advisory committee. That is due to be set up shortly, but the committee report won't be due until May 31st. I think we are looking at you bringing something up some proposed legislation in a time frame shorter than that. How is the advisory committee going to work with you to get a report out but, yet, you are going to get legislation before they are able to advise you?

Mr. SAMPSON. Great question. In the course of our meetings with Congress and committee members and staff, it has become clear to us that Congress wants a piece of legislation sooner rather than later. At the same time, we want there to be meaningful substantive advice and input from a broad range of community and economic development professionals, elected officials, researchers from around the country. What we are doing is working on several fronts simultaneously. It is our goal to have a basic structure of a bill delivered to Congress so that you can begin to hold hearings on a specific piece of legislation. There may be, in fact, some placeholders or holes within that legislation that we submit this spring while the advisory committee completes its work. Obviously, I am well aware that the legislative process is a fluid process. We believe that it is important to be responsive to you to get a piece

of legislation up here, and if it has some placeholders in it, we all need to recognize those for what they are.

Mr. SHUSTER. And when that legislation comes forward, we certainly want to work closely with you in crafting that as we set up and move forward, as I said before.

Finally, a question that I have is your view of infrastructure in economic development. How important do you view that in this new organization and just in economic development terms?

Mr. SAMPSON. Infrastructure is a critical component to building community viability and enhanced economic opportunity. One of the greatest challenges for our most distressed communities in the United States today is the infrastructure is simply outdated and it is not adequate to support the kind of twenty-first century private capital investment that is needed for these communities to regain their prosperity and to create more and better jobs for those communities.

We envision the proposal that the President has submitted actually increasing the flexibility for the use of these funds for infrastructure. For example, the CDBG funds currently have a number of restrictions on the use of those funds for roadways and other components that could support the creation of industrial parks and business parks. So we believe this proposal will actually increase available funding for infrastructure.

Mr. SHUSTER. Thank you.

I see the ranking member of the full committee just arrived.

Would you like to make an opening statement or would you—

Ms. NORTON. I would defer to the ranking member for a statement.

Mr. SHUSTER. The ranking member who has been a leader on this issue and have told some people this is one of your babies. But we certainly would like to hear from you.

Mr. OBERSTAR. Thank you very much, Mr. Chairman. It is good to see a Shuster-chairing committee again in this room.

Indeed, EDA is a matter of long standing with me. I prize one of the green pens that Lyndon Johnson used to sign this bill into law on August 9, 1965, and EDA's record of accomplishment is unequaled, I would say unparalleled except for that of the Appalachian Regional Commission in the Federal Government as a success story.

Just recently, earlier this week I spoke to the International Economic Development Council. As Dr. Sampson knows—he has done a splendid job of leadership at the EDA—EDA has invested perhaps a $1.5 billion over the years in community-based and initiated economic development initiatives, and every year the 1.5 million jobs created by those EDA projects are returning $6.5 billion in taxes to Federal, State, and local governments. We are getting four times as much back in tax dollars as we have invested in public revenues into EDA-initiated projects.

Furthermore, this a bottoms up program, grassroots up program. The Federal Government doesn't come to any State or any development committee or any regional development commission and say this is what you must do; they propose, and EDA evaluates and decides which of meritorious proposals to support.

So now we come to yet another initiative to dismantle EDA. This document, Mr. Chairman,—about the time you were born, probably; hold on to these things—"Program for Economic Recovery, America's New Beginning." It was not a document for economic recovery, it was a document for abolishing a whole range of Federal economic development programs. It proposed to download, downfund the FAA Airport Improvement Program, the Highway Construction Program, and the 1981 Reagan Administration proposes to eliminate funding for the Economic Development Administration and the regional development commissions of the Department of Commerce, and the non-highway programs of the Appalachian Regional Commission.

Yogi Berra had a phrase for this: deja vu—he didn't pronounce it that way—all over again. Well, we are not going to stand for that. Now, this is a thinly disguised initiative. You have been sent here as a missionary with your staff and your rod to pronounce to the Congress something that I doubt that you fully believe in. But you have been sent up here to say we are going to bring together a whole panoply of Federal Government programs, put them all in one box, and then we are going to cut one-third of the funds. Then we are going to hamstring this, we are going to send them out with one arm tied behind their back and one foot tied to the other. Now, that is not right.

This policy change will save more than $5 billion over the next four to five years, they said in 1981. Well, Democrats and Republicans in the Congress stood up, and by a vote of 375 to forty-something we said no. And we are going to say no again, because this is the wrong initiative and the wrong time. You don't reverse 150 years of economic decline, as we have seen in Appalachia, in 20 or 25 years or 30 years. You don't reverse the economic decline that occurred in the chairman's district and in the rest of Pennsylvania in the rust belt and the steel valley, 100 years of the industrial revolution building steel mills, and then 20 years they are gone; the jobs are gone, the people are gone. You don't restore that economy in another 10 or 15 years. It takes time to reinvest in the infrastructure, in the physical infrastructure, in the intellectual capacity, in the capital formation in those areas.

EDA has been the only effective tool that we have had to do this. Community Development Block Grants, fine. They ought to stay where they are. EDA has a very targeted mission, a very successful mission. Bring all those charts that you want up here; they are all concocted by some beaver in OMB, the same guy that probably wrote this language 25 years ago. I don't believe a word of it, I don't think any of that will work, I don't like the idea, and apart from that, I have an opinion.

So, Dr. Sampson, I have sympathy for you coming up here with this mission, but I think we are better off with the structure as it is than trying to restructure everything according to this grand scheme.

I would be glad to hear your response.

Mr. SHUSTER. Mr. Chairman, we are not into the question and answer period yet.

Mr. OBERSTAR. Oh, I am sorry.

Mr. SHUSTER. That is all right. Mrs. Norton, you will be up first, but you are going to let the ranking member continue?

Ms. NORTON. I would certainly defer to hear a response, if that is what—

Mr. SHUSTER. Sure. That is fine, because you were next, Mrs. Norton, but I just wanted to—

Ms. NORTON. Do you want to hear a response to that? I certainly would defer to get a response, before my questions.

Mr. SHUSTER. Go ahead, Dr. Sampson.

Mr. SAMPSON. Congressman Oberstar, you and I have worked closely together over the last several years, and I think you know I have always shot straight with you, I am a man of my word, and I very deeply and sincerely believe that the proposal that the President has included in the budget is one which builds on the success of EDA's past and takes the Department of Commerce's efforts to a new level of assistance and service to the most needy communities in America.

The challenge in reducing poverty is that reliance on government and philanthropic resources to get that job done is inadequate; there is not enough money in the Federal budget, or State or local budgets or philanthropic foundations to do that. What we have to do is to deploy the Federal assistance in a way that it taps into and unlocks the market potential of private sector markets.

I am proud of the work that EDA has done in the four years of my stewardship. That record is not consistent across all 18 of these programs, however. The OMB cross-cutting analysis has indicated that most of these programs rate as some of the lowest performing programs within the Federal budget, and we believe by learning the lessons of the successful programs in the past, reducing the fragmentation and the lack of focus and the lack of coordination, that we can help our most vulnerable communities actually achieve greater economic performance in the future.

And I just want to be very clear that I deeply and passionately believe in the direction of the proposal before you today.

Mr. OBERSTAR. Well, I am sorry that you are.

Mr. SHUSTER. Mrs. Norton.

Let me just say something to the ranking member, just to let her know we had a unanimous consent. We expanded the five minute rule to ten minutes for yourself and ranking member of the Subcommittee and chairman for opening statements. I wanted to do that because I knew how passionate you are about EDA, and I am going to be a stickler about the five minute rule to run through efficiently. But, as I said, we extended that courtesy to both you and Mrs. Norton.

Ms. Norton, go ahead with your questions.

Ms. NORTON. Thank you very much, Mr. Chairman. When you speak about passion, I know that Dr. Sampson is aware that this Congress is full of members with a lot of passion for the EDA programs, so you have to know what you are up against.

Dr. Sampson, I would hate to see your own credibility undercut, because we work so closely and productively with you only a few months ago, about six months ago, there was no more adamant or passionate official for reauthorization. We depended very substantially on your evaluation of the program. Now, when you see a vir-

tual U-turn six months ago, I have to ask you just in the spirit of candor—we understand that the Administration and the entire Congress is under a great deal of pressure because of the deficit. Because I am certainly not against reform, I ran a very troubled Federal agency myself, so I would be very open to reforms. This committee has been central to reforms. Is it the deficit, is it the OMB and its concerns, which means the Administration, that have caused you to take a very different position from the position you took just six months ago, urging us to reauthorize precisely the program you now are asking to be changed in fundamental ways?

Mr. SAMPSON. We would be proposing this reform regardless of the budgetary and deficit situation. The reality is—

Ms. NORTON. Then why didn't you propose it six months ago? I mean, really, did you just get religion in the last few months?

Mr. SAMPSON. No, ma'am, I have had religion for many, many years.

This has been a year-long crosscutting analysis of 18 different programs that was very thorough, conducted by OMB, conducted by Interagency Collaborative for Community and Economic Development efforts. When we proposed the reauthorization of EDA, that analysis and that work was not completed. It was not completed until the very first part of this year. This proposal was in dialogue and discussion in the first part of this year. We came to you in good faith with what we believed was our best recommendation for the management of EDA and positioning EDA to be an effective agency. We are committed to continuing to operate EDA in that manner until something changes. But we came to you in good faith. We believe that we got a strong bipartisan bill, and we believe that we can work with you in the same fashion to, now that we have the information about the performance of 18 other programs within the Federal Government—and I would say that it is the track record of EDA that led the President to make the decision to house this new program at the Department of Commerce.

Ms. NORTON. Dr. Sampson, let me just warn you the next time you come before this committee and ask us to do something the way you did on reauthorization, and there is a year-long study in progress, you have an obligation to tell this committee about such a study, which was never mentioned. No one here can remember the mention of any such study. And it is very disturbing to hear that there was a study going on about some of the programs that was never mentioned to us when we reauthorized. I just want to say that to you. This goes to the credibility with which your testimony will be accepted in the future, as far as I am concerned.

Mr. SAMPSON. Well, may I respond to that?

Ms. NORTON. Yes, you certainly may.

Mr. SAMPSON. I hope that you will recognize that I have a very specific portfolio that I am responsible for. I am not responsible for, nor do I know everything that is going on at the OMB in terms of all of the analysis. I came to you—

Ms. NORTON. Well, did you know about the analysis of these 18 programs at the time you testified before us? Were you a part of that analysis? Were you asked your opinion on it during that period of time?

Mr. SAMPSON. There are many different levels of review. We participated in the Interagency Collaborative on Community and Economic Development, which was a study group of a number of committees looking at areas of overlap and effectiveness. At that time there was not a specific proposal on the table for consolidation, it was a study group. That is the level that I participated in.

Ms. NORTON. All right, I understand. And, again, my word to you is that reauthorization is a very serious matter for us. If we are reauthorizing programs that are being studied, crosscutting studies or whatever, it is your obligation to inform the Congress so we can take that into consideration. You know, I look at your testimony, where you say many—

Mr. SHUSTER. Five minutes are up, and what we will do is we can do another round of questions if Mr. Davis has a question. We have ten minutes then the vote.

Mr. DAVIS. I don't—

Mr. SHUSTER. Yes, Mr. Davis.

Mr. DAVIS. I don't really have a question. I will later, if we continue the hearing. Are we going to do that when we get through voting?

Mr. SHUSTER. Do you have further questions and want to continue? Do you have a question we can get through here in the next five or ten minutes? Because we are going to be leaving here for probably an hour.

Mr. DAVIS. So we probably won't be back.

Mr. SHUSTER. We probably won't be back for Mr. Sampson. We will be back to the second panel, though.

Mr. DAVIS. First of all, I am from a small rural area. When you look at congressional districts in this Nation, of the 435, the fourth congressional district has the fourth largest rural residency of any congressional district in America. I have 10,000 square miles. That is a huge area. When I get in my pickup truck at home and I drive to the other end of the district, I have to fill it with gas at least once before I come back. It is that huge of a distance. But, yet, it is in Tennessee, and you would assume that Tennessee, as small as it is, especially from the north to the south, you probably wouldn't have that type of an area. I have the third highest number of blue collar workers in the congressional district I represent of the 435. Now, what does that say? Lower income individuals in a rural area. Who helps them? Rural Development Agency, the old Farmer's Home Administration, EDA, ARC, CDBGs, community service block grants that go to our human resource agencies. All of these are part of the lifeblood that keeps rural America and the district I represent moving.

So, to me, any proposal that would enhance the opportunity or that would bring to bear more dollars available and easier to obtain for rural areas, I am for it. If it doesn't, I'm against it. That is just the way it is. I don't have a choice, because there is only one person representing those folks in Congress; they only have one vote, and it is this fellow who is sitting here today.

I have worked with Farmer's Home Administration for a little over a total—I worked USDA for 11 years, of which 10 of those were with an agency called Farmer's Home Administration. When I started to work in Picket County and Birds Town, which had less

than 5,000 population, there was 212 individuals that had a treated potable water system. We now have over 2500. Where did those dollars come from? These agencies that are about to be cut and these agencies that may be dissolved as a result of some of the proposals here.

You see how much of a head shot it is to rural areas when we start talking about retracting dollars from them? Let me read a letter from the Town of Ester Springs, which is a small county. It is really a large town, to be honest, it is 2200 population.

"Congressman Davis, the Town of Ester Springs is strongly against the proposed elimination by President Bush of the Small Cities Community Development Block Grant and the Appalachian Regional Commission. These programs are vital to small communities to be able to provide much needed infrastructure to our residents. The Ester Springs water system was losing 56.2 percent of the water that we produced because of leaking and broken water lines. We simply did not have the funds available to construct a comprehensive water rehabilitation project that would address the problem. In 2004, we received $300,000 in CDBG funds to replace those old braking waterlines. Esther Springs' population is 2294 at last count and growing. This population makes us the second largest municipality in Franklin County, but our homes and our business operate using septic tanks, and we do not have a public sewer system. A sanitary sewer system is critical for our future growth and development, and we had planned to apply for CDBG and ARC funds in the near future for construction of this. Without grant assistance, we have no hope of being able to afford a sewer system. The CDBG program is one of the very few grant programs available to local citizen candidates for much needed infrastructure. We hope you will consider our request and understand the importance of these grant funds for small rural communities."

If you live in a large area, EDA, CDBG, ARC, Rural Development Agency may not be important to you, but I can assure you one thing: economic development and the opportunities and options of life depend on such grant programs as this, and it is extremely difficult for me to be able to vote for anything or support any area that would make dramatic cuts in funding available to the least amongst us in our society, and most of those least amongst us are those with low incomes that live in rural areas.

Mr. SHUSTER. Thank you, Mr. Davis.

Now I know what a professional coach feels like when he has to manage the clock. This is what we are going to do, because I know Mrs. Norton and myself have a couple more questions. We are going to recess for 10 minutes, and then come back and finish up with Dr. Sampson.

But before we do that, Congressman Holden would like to introduce one of the panelists from the next panel.

Mr. HOLDEN. Well, thank you, Mr. Chairman, and thank you and Ranking Member Norton for your indulgence here.

Mr. SHUSTER. I did ask unanimous consent that you be allowed to introduce. Without any objection, so ordered.

Mr. HOLDEN. Thank you, Mr. Chairman. I will only take a moment; I know we have a vote coming up. But I would just like to take this opportunity to welcome one of the panelists for the second

panel, and that is the mayor of Lebanon, Pennsylvania, Bob Anspach, who is the mayor of the second largest city in my congressional district.

Mayor, I would like to take this opportunity to welcome you and thank you for your input. I read with interest your concerns about the proposal from the Administration the other day about the consolidation of the Community Development Block Grant program. I was particularly concerned about the police protection at 8th and Chestnut Street. Of course, you know that is where my congressional office is held, and I was very interested to read that in the article.

But I do know that you have been doing an outstanding job as the mayor, and I know that you bring your military experience to being the chief executive, and I know that you are very concerned about the ability for the Federal Government to continue to be a partner with the City of Lebanon. So we welcome your testimony. I will try to be back to hear it, even though I have read it several times already. I am not sure I will be able to, but thank you very much for being here.

And thank you, Mr. Chairman. Appreciate it.

Mr. SHUSTER. Thank you, Mr. Holden.

The committee will be in recess for approximately 10 minutes.

[Recess.]

Mr. SHUSTER. The committee will come back to order, and we will start off with Ms. Norton for the second round of questions. We want to stay on the five minute rule to try to get through the questions and get through the next panel before we get called for another vote, which will be in about a half an hour from now.

Ms. NORTON. Thank you, Mr. Chairman.

Dr. Sampson, in your testimony at page 4, you say that—and here I am quoting—"many communities with relatively low poverty rates receive Federal funding at the expense of distressed communities." That claim particularly interests me in light of the testimony that came before us at the time of reauthorization about the core bases of funding, beginning with employment or unemployment, poverty. I understand that there are other factors. For example, some communities may have been at getting private sector funding. If anything, we tried to encourage that kind of entrepreneurial use of the program.

In light of the fact that you now say that many of the communities that received this money are not the most distressed communities, I would like to ask you about how you know that and how these programs were rated. You say that there was the Program Assessment Rating Tool. I would ask you to explain how it worked, whether you participated in the ratings, what were the elements that were rated, what kinds of categories that were used. Again, you have to understand I am trying to reconcile what we have done with now what we are being asked to do, so I need to know more about the ratings. I understand that you looked at 9 out of 18 programs, not every program, for example.

Mr. SAMPSON. Sure. Congresswoman, let me make clear there are two separate issues here. When I spoke to you last summer and fall, or earlier on EDA's reauthorization, I was focused solely on the program that I managed at that point in time, which was EDA,

and everything that I shared with you about EDA I stand behind. What I am now talking about is the portfolio or this suite of programs within the Federal Government, these 18 programs that are proposed for consolidation. So the remarks that you identified in my testimony refer not just to EDA, but to the suite of 18 different programs.

In answer to your question, I did not participate in the PART process, that is an OMB initiative. Mr. Robert Shay at OMB runs that initiative; that is outside of my portfolio. What I am providing you are the summary findings of that OMB analysis. And I am sure that we can get back to you in much greater detail. There are about, I think, five or six, seven, eight different components to that PART rating.

With respect to parting 9 of the 18 programs, those represent 95 percent of the funding that is targeted for consolidation. So the bulk of funds targeted for consolidation have been rated by OMB.

Ms. NORTON. Don't you think it was at least relevant to ask you your view? I am all in favor of outside reviews. I also believe that those of us who are for Federal programs have to be in a constant mode of reform. So I hope you don't misunderstand my questions. But in trying to figure out what to do, whereas the outside evaluators are critical, don't you think it was a little strange that you were not asked for your opinion at all, so that there was some benchmark to compare with?

Mr. SAMPSON. We participate, ma'am, in the PART process for EDA; I have had extensive involvement in EDA's PART analysis. As a matter of fact, in my quest for continuous improvement at EDA, I requested a second PART review analysis by OMB in a subsequent year, which is, I think, rather unheard of, because we initiated a number of improvement processes. So I have been involved in the PART analysis of EDA. What I mean is I have not been involved in the PART analysis of the other 95 percent of the funds that were parted by OMB.

Ms. NORTON. Are you aware that $18 billion, by our own calculations, will be lost in private investment if the President's cuts of $1.8 billion is affected?

Mr. SAMPSON. I am not sure what the basis of that calculation is, ma'am. I would be happy to take a look at it.

Ms. NORTON. But you don't see any loss in private investment? You know that that has been a major part—

Mr. SAMPSON. No, ma'am. As a matter of fact, I strongly believe that with the consolidation of these 18 programs into the Department of Commerce using more of the model that the Department of Commerce has pursued in recent years, we will actually see private sector leverage and investment in these communities increase above what it is now under the current 18 programs.

Ms. NORTON. Of course, some of these programs that have the private investment will be gone, and apparently the private investment with it.

Mr. Chairman, I will end my five minutes here, since you are going to dismiss this witness. But I have to say to you, Mr. Chairman, that I don't see how we will be able to make any decisions unless a whole set of questions are propounded in writing to this witness.

You say in your testimony, for example, that the new program will track progress toward goals, including increasing job creation, new business formation, private sector investment. That is what we thought this was all about; that is what we ratified.

And if I may, Mr. Chairman, I will need some clarification about how you are going to do that better with these new programs than you testified you were already doing it when we reauthorized this program the last time.

Mr. SHUSTER. Well, I am sure that if the gentlelady submits questions, the secretary and his staff will be more than happy to submit back with the answers to her.

I would ask unanimous consent that all members be allowed to submit statements and questions for the record.

Mr. SAMPSON. Mr. Chairman, not only will I be happy to provide written answers to the ranking member, I am available to meet with her and with other members of the Committee to have extensive discussions on these items. And I welcome that opportunity, Congresswoman.

Ms. NORTON. Thank you.

Mr. SHUSTER. And I know your reputation as a results-oriented person and a strong leader and person with impeccable integrity. I know that we will be working closely with you as we move forward.

I have two questions. Could you please tell the Committee how many jobs were created or retained by EDA as programs, as compared to CDBG? Do you happen to have that statistic?

Mr. SAMPSON. I believe—let me make sure I am giving you the right numbers. In fiscal year 2004, EDA's $323 million in program funds led to the creation of 160,000 jobs and leveraged $10.4 billion in private sector investment. I believe, Mr. Chairman, that based on Deputy Secretary Bernardi's testimony before the Government Reform Committee on March the 1st, that he testified that CDBG, their economic development activities, which were funded at a level of $434 million in 2004, led to the creation or retention of 78,000 jobs. I believe those are the accurate numbers to be reported.

Mr. SHUSTER. And those numbers came from the different departments, it wasn't done by the inspector general, from his departments or outside?

Mr. SAMPSON. Not to my knowledge. For us, the numbers are the numbers reported by our grant recipients on their grant applications, and then those are evaluated at the three, five, and I believe the seven year marks, after the grant is awarded, to see whether they achieved their projected levels of job creation and private sector leverage.

Mr. SHUSTER. That is twice as effective, EDA versus CDBG.

Mr. SAMPSON. Well, I believe that is indicative of my response to the ranking member that I believe that in the consolidation at Commerce, because of mission alignment and because of the Commerce Department track record of working with these funds—and certainly the President believes that we will actually achieve greater results, which is what we all want, more results for the most vulnerable communities and the most impoverished of our citizens.

Mr. SHUSTER. Without asking my second question, you have already answered. I was going to ask how do you respond to the criti-

cism of taking these various economic development grant programs, putting them into Commerce, because your focus and expertise is economic development. Would you care to expand on that at all?

Mr. SAMPSON. Yes, Mr. Chairman. Actually, EDA and the Department of Commerce have a very long historical and current record of assisting both community development initiatives as well economic development initiatives, including factors such as workforce training centers and other type of community facilities in both urban and rural settings. One of the very unique features of the Department of Commerce, is that our portfolio includes both urban and rural settings.

And I was remiss, Mr .Chairman, if I might, in failing to respond to one of the ranking member's questions about how can I say that many of these funds no longer go to the communities most in need. That was based on the OMB crosscutting analysis, which found that 38 percent of the HUD CDBG funds, for example, go to communities on an entitlement basis that have rates of poverty far below the national average, such that we have communities in this country with poverty rates of two and three percent that on an annual basis receive these poverty alleviation dollars. The Administration and the President believe those are fundamentally the wrong priorities, that these funds need to be targeted to our communities that have the highest rates of poverty, the highest rates of unemployment. So that is the source of that statement in my testimony.

Mr. SHUSTER. Well, thank you, Dr. Sampson. We are going to be working closely with you as we move forward. I know that the ranking member has concerns, as do I. I am one that believes that change is not bad as long as it is positive, and I think there can be some positive changes that need to be made, but we want to make sure that we don't compromise the great success that I think EDA has had over these last 30, 35 years or so.

So, again, thank you for being here today. Appreciate it and appreciate your candor.

Ms. NORTON. Could I ask unanimous consent, Mr. Chairman, to put into the record the material from the City of Atlanta, the American Planning Association, and a member, Mr. Blumenauer, opposing the President's proposal for this program?

Mr. SHUSTER. Without objection, so ordered.

Again, thank you, Dr. Sampson. You are excused.

Mr. SAMPSON. Thank you, Mr. Chairman.

Mr. SHUSTER. The second panel, if you could move forward.

Thank you all. Sorry for the delay there. We are going to try to get through all of your testimony. Hopefully, you will be able to do it in five minutes or less. I think the most important part is the questioning afterwards, and we are probably going to get interrupted by a vote, but we will go as far as we can before we have to stop.

The second panel today is a much larger panel, which includes experts in the field of economic development and representatives of local government to offer their perspective on the Administration's proposal.

Joining us today is the Honorable Robert Anspach, who Congressman Holden has introduced, the mayor of the City of Lebanon,

Pennsylvania, he is here on behalf of the National League of Cities; Charles Fluharty, Director of Rural Policy Research Institute at the University of Missouri; and from my district, Ed Silvetti, the Executive Director of Southern Alleghenies Planning and Development Commission—Ed, it is good to see you here today—and Ken Jones, First Vice-President of the National Association of Development Organizations and Executive Director of the Lower Rio Grande Valley Development Council. That is a mouthful.

Since your written testimony has been made part of the record, the Subcommittee will request that all witnesses limit your testimony to five minutes, and we will ask questions afterwards.

With that, Mr. Mayor, I would like you to go ahead and start.

STATEMENTS OF HONORABLE ROBERT A. ANSPACH, MAYOR, LEBANON, PENNSYLVANIA; CHARLES FLUHARTY, DIRECTOR, RURAL POLICY RESEARCH INSTITUTE, UNIVERSITY OF MISSOURI; EDWARD M. SILVETTI, EXECUTIVE DIRECTOR, SOUTHERN ALLEGHENIES PLANNING AND DEVELOPMENT COMMISSION; AND KEN JONES, FIRST VICE-PRESIDENT, NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS, EXECUTIVE DIRECTOR, LOWER RIO GRANDE VALLEY DEVELOPMENT COUNCIL

Mr. ANSPACH. Mr. Chairman and members of the Subcommittee, my name is Bob Anspach. I am mayor of Lebanon, Pennsylvania, and I am here today representing the National League of Cities and the Pennsylvania League of Cities and Municipalities.

The NLC and the PLCM's concerns with the Administration's Strengthening America's Communities initiative is threefold: the proposal, first, would drastically reduce community development funding that cannot be replaced; the proposal would alter eligibility requirements to the disadvantaged of some low and moderate income communities; and, finally, the proposal would narrow the mission of the CDBG program, which would reduce its flexibility and its effectiveness.

The Administration's proposal would consolidate 18 current programs with a combined fiscal year 2005 budget of $5.6 billion into a new two-part grant program with only $3.7 billion in funding. This is a drastic cut of nearly $2 billion. What is even more alarming is that the plan will raid the majority of its funding from the CDBG program.

The Community Development Program has played a critical role in rejuvenating distressed neighborhoods and alleviating economic decline in all types of communities. It is one of the best and only tools currently available to spur on economic growth. However, CDBG is not just a jobs creator or economic development incubator. It is also a catalyst for affordable housing and new public infrastructure.

For example, in Lebanon we dedicated $331,000 in block grant funds to demolish vacant and blighted buildings in certain neighborhoods throughout the city. These structures were havens for crime, targets for vandalism and fires, and an attractive nuisance to our children. The city used the vacant lots and created larger yards for some houses, off-street parking in high-density neighbor-

hoods, and accepted proposals to develop owner-occupied housing at the site of an abandoned factory.

The Administration, the Congress, and cities across the Country can all applaud many partnerships. Certainly, these projects are but a few and a small representation of many successes in the 30 years of the block grant. Yet, despite measurable successes, the Office of Management and Budget proposes to cut CDBG in favor of SAC. So what is their rationale?

First, OMB claims that SAC will better fund communities most in need of assistance by creating new eligibility criteria around national job loss, unemployment, and poverty rates. Too many communities, it says, are receiving funding even though they no longer need assistance, an they have poverty rates that are below the national average. The details are still unclear as to which communities will be eligible for SAC grants, but it seems clear that they must, at the very least, have poverty and job loss rates above the national average. If this is so, then the Administration has made the mistaken assumption that impoverished neighborhoods no longer exist in communities ranking above the national average on the poverty and job loss index.

We at the local level, however, know this is far from reality. Using national averages to measure assistance needs ignores the reality that our Nation is comprised of local economic regions that are unique. For example, the majority of families who earn below the regional median household income in the greater Washington-Baltimore metropolitan area may earn more than the national poverty rate, but they are just as much in need of assistance because the cost of living in this region is so much higher.

Second, the OMB claims that programs like CDBG have no measurable results. The Administration's proposal suggests new performance standards like job creation, new business formation rates, commercial development, and private sector investment as tools to determine whether communities receiving SAC funds are achieving results and, thus, their eligibility to retain funds or to gain bonus grants.

Unfortunately, measuring results by these criteria make little sense for communities that are chronically impoverished, have little to offer in the way of resources, and are unlikely to show significant progress over a relatively short period of time. In short, they are being set up for failure. It is very difficult to assess the impact of removing a drug den from a neighborhood using economic criteria alone. Moreover, it is difficult to assess economic impact in relation to this type of project over a short period. Yet, the Administration's proposal appears to try to do just that.

Mr. Chairman, closing down a drug den may not immediately create job growth, spur new businesses, or encourage new commercial and residential development. However, it will immediately increase the neighborhood's quality of life. That is measurable and that is the foundational beginning of any plan to attract new commercial and residential development in the future.

Throughout Pennsylvania you will find that in virtually every city there are places of poverty, and we have to understand that the Administration's one-size-fits-all approach will likely stifle the flexibility and effectiveness of the monies used. We therefore,

through the NLC and the Pennsylvania League of Cities, will aggressively continue its campaign for the continued existence of a strong and distinct Community Development Block Grant program.

Thank you, sir, for your time and look forward to your questions.

Mr. SHUSTER. Thank you, Mayor Anspach.

Mr. Fluharty? You may proceed.

Mr. FLUHARTY. Mr. Chairman, I thank you for the opportunity to have a rural perspective placed in this discussion today. I would like to make three very brief remarks about the rural context for this proposal.

First of all, if we fail to ignore the unique rural context in these decisions, that will result in a failure to optimize the opportunities for our Nation that exist in these rural areas. Secondly, acknowledging this context and paying specific and detailed attention to the rural context will, by necessity, alter the design and delivery of this program in rural America. Finally, if this is done, I believe we can craft the twenty-first century rural regional innovation system that I lay out in my testimony; that is, a system that is sensitive to place, culture, and unique circumstance, operates in an asset-based development framework, and is centered around rural entrepreneurship and rural governance.

A word about this rural context. Each year this Federal Government spends two to five times as much per capita on urban than rural community development. Two to five times. In the most recent rural data year, that is a $14 billion annual community capacity disadvantage in rural America.

Now, of the $30 billion that is distributed annually by our nation's foundations, only $100 million gets committed to rural development. If we look at a recent study of the 124 Fortune 500 companies, their corporate giving in this nation in the year 2000, they gave $12 billion to community and economic development, but only seven-tenths of one percent of that went to rural grants. These realities in rural community capacity disadvantage simply cannot be ignored, in the face of this challenge.

Before we go any further, I believe, in this really serious discussion about this policy change, we really need to look at this immense structural regional capacity disadvantage in rural communities. And each year, Mr. Chairman, the Federal Government exacerbates that by its funding formulas.

Finally, we can't divorce community and economic development in rural areas, as you know. The playing field is simply too inequitable right now, and the Federal Government must address the needs that rural areas have to get to a development-ready framework.

I fully agree with Assistant Secretary Sampson, in his testimony, that sound investments in community development must lay the groundwork for sound economic development. That is essential in the rural context.

In closing, small business is the backbone of this nation. This is particularly true in rural America. Rural job creation, rural new business formation, private sector investment, all very laudable, very appropriate goals. It is critical that we focus on these. Scaling that opportunity in rural America, however, Mr. Chairman, is going to require a vibrant rural entrepreneurship system, which

will not develop unless we pay attention to, and give credibility to, the community capacity and intermediary organization support that my testimony lays out.

I also agree with the Assistant Secretary that each community is different and that we need a different road to tackle each community's needs. I could not agree more. This is also particularly critical in rural America. There is an old saying: If you have seen one rural community, you have seen one rural community. That is very, very true. Commitment to that premise will result in a program design which ensures two things: local flexibility and locally based organizational capacity to support development and implementation of regionally appropriate strategies.

So in closing, Mr. Chairman, there are many comments I could make. I have tried to make the three most critical rural policy issues clear. You know, we live in a society in love with the quick fix. Rarely do we commit to anything for the long haul. We have done that in economic development in this nation, and that is exactly what is required if we are going to build vibrant rural communities that can fully contribute to our national economy. Where these investments are made, there is a miraculous rural renaissance starting, so I would urge this Congress and this committee to sustain and nurture this unique competitive advantage, that is local; to recognize unique approaches are essential and to assure the community capacity for our under-resourced and challenged communities is not divorced from economic development.

Thank you, Mr. Chairman.

Mr. SHUSTER. Thank you, Mr. Fluharty.

Next, Mr. Ed Silvetti, who is a good friend of mine from Blair County, Pennsylvania, and a long-time economic development planner and leader in our community.

Ed, appreciate you being here. Go ahead.

Mr. SILVETTI. Good afternoon. Thank you, Chairman Shuster and members of the Subcommittee, for your invitation to testify today on behalf of Federally supported local economic development efforts in the sub-State region of Pennsylvania that is predominantly rural and one that has benefitted immensely from community and economic development programs promulgated by the Congress. I would like to acknowledge Chairman Shuster, in whose ninth congressional district of Pennsylvania I live and work on behalf of which my organization's efforts are directed.

I have been, for the past 12 years, Executive Director of Southern Alleghenies Commission, headquartered in Altoona, Pennsylvania. Altoona is one of our two principal cities and along with our counties in South Central Pennsylvania, these being Blair, Bedford, Cambria, Fulton, Huntingdon, and Somerset. As a public nonprofit development agency, the Southern Alleghenies Commission has served the community and economic development interests of the region's citizens since 1967. In recent years, I have served as President of Pennsylvania's association of regional councils, as well as President of the Development District Association of Appalachia. This organization comprising the 72 Local Development Districts designated through the Appalachian Regional Commission. My point is that I think this has given me a perspective well beyond where I live and work in the congressman's district.

I would like to focus, if I may, on how economic development plays out in rural Pennsylvania and across this Country. My intent is not to discourage consideration of alternatives such as the President proposes, but to try to demonstrate in some small way the importance of the Economic Development Administration and other programs in meeting the need for economic stimulation and job creation.

For the record, Southern Alleghenies Commission is a designated economic development district under the Public Works and Economic Development Act. This being said, Southern Alleghenies Commission does receive a small planning grant annually, as well as we administer a number of revolving loan funds, one of which is capitalized through the EDA.

But from my professional vantage point, the necessity for public infrastructure and the identification of infrastructure as lacking in this Country really has waxed and waned for as long as I can remember. I am here today to tell you that inadequate public infrastructure and deteriorated infrastructure has never been off our agenda. A lack of broadband, water service, sewerage service, and highway access to business and industrial sites preempts our ability to respond immediately to major economic opportunities presented by larger businesses and manufacturers. What remains for those of us in rural Pennsylvania is oftentimes competing for lower tech, lower paying jobs.

I would also like to state for the record that it is the belief of our board of directors, comprised of locally elected officials from our six counties, that the EDA has been the singular Federal program that has helped to support the establishment of business parks, industrial parks, and attendant infrastructure that has in turn supported a huge portion of economic growth and resulting new jobs in our small corner of this Country.

Within our six county region, we have made the prudent decisions and recommended these for EDA consideration. Many of these investments have gone in our more urban counties, but our organization's proudest moments have been when we have brokered Federal investments in our most rural counties in response to economic opportunity to see jobs created in areas where, without public investment, no jobs or very few jobs would have been created at all.

I wish that all members of this Subcommittee had the opportunity to attend the groundbreaking and ribbon cutting for the Fulton County Business Park. Fulton County has a population of barely 15,000 people, but this business park has already supported the expansion of several manufacturers and, with its recent tax-free designation, holds the promise of creating many more jobs onsite. Without EDA's investment, this project simply would not have happened.

As I have stated, our organization was incorporated in 1967 by a number of political and business leaders in our region who foresaw the necessity to plan and deliver economic and community development services on a broader geographic and political basis than at the sub-county, municipal, or even county level.

Suffice it to say that for well over 35 years, Southern Alleghenies Commission has been working hard to make our region a better

place in which to live, work, and do business. We have a solid reputation and are committed to continuing to promote progress through regional multi-county cooperation. Southern Alleghenies provides administrative, professional, and technical assistance that simply is not available within individual municipalities, and, likewise, many of our business services that we provide require expertise also not available in most of our small and medium sized businesses that comprise rural economies. We help our communities and we help our businesses to compete in an economy that stretches far beyond the geographic confines of Southern Alleghenies Pennsylvania. Federal programming, particularly like the EDA, support these efforts.

I can summarize much of what we do as a regional council, Chairman Shuster and members of the Subcommittee, by stating simply that we prudently manage a sifting process. There has to be some entity that undertakes a cost-benefit analysis of projects and makes those recommendations to Federal agencies like EDA.

And, again, thank you to the Committee for the opportunity to testify today.

Mr. SHUSTER. Thank you.

Mr. Jones, let me say we have a vote going on, but we will be able to get through your statement. Don't rush. I have got about 10 minutes until I have to be over there, but try to keep it under five would be greatly appreciated. Go ahead, Mr. Jones.

Mr. JONES. Thank you, Mr. Chairman. Again, afternoon to all, and my thanks to you, sir, and the members of the Subcommittee for the opportunity to be here today. In my oral remarks I will summarize the four main points outlined in my full written statement.

First, the current portfolio of 35 community and economic development programs offers vital resources for our Nation's distressed regions. While we agree with the Administration that every Federal program should be and must be reviewed on a continual basis, we feel the primary weakness in the current system is the lack of financial resources. At a time when nearly every American business and community is confronted with intense competition from emerging and developing nations, we should be expanding Federal investments in infrastructure and other community and economic development projects. Instead, we are facing nearly $2 billion in Federal cuts and elimination of 18 valuable and proven programs, most notably the Economic Development Administration and HUD's CDBG program.

Second, Mr. Chairman, the Economic Development Administration and its local partners have a proven and documented record of exceptional performance and accountability. This is evident in the fact that Congress has passed, with the leadership of this committee and the overwhelming bipartisan support from both chambers, two multi-year reauthorization bills for the agency since 1998. As outlined in the President's 2006 budget, and as was mentioned earlier, EDA was ranked as the highest performing agency within the portfolio of 35 Federal community and economic development programs. This is high praise from the OMB. Most importantly, the value of EDA planning, economic adjustment and infrastructure in-

vestments have been positively experienced in hundreds of urban, small metropolitan, and rural communities across the Nation.

My third main point is that inadequate public infrastructure remains the most significant roadblock to local economic development. This committee understands this point, as it constantly strives to secure additional investments in our Nation's roads, bridges, water infrastructure, and airports. When it comes to community and economic development, EDA is an instrumental and effective partner for local communities, especially in small towns and rural America. While it is true that the private sector creates jobs, it is equally true that the private sector relies, expects, and demands that public entities such as State and local governments provide and maintain essential public services and infrastructure. Without the industrial parks, business incubators, access roads, rail spurs, water and sewer facilities, and job skills training facilities build with EDA assistance, most of our Nation's distressed communities would be ill equipped to sustain, let alone attract, private sector industries.

In my written statement I outline numerous real world examples of the impact of EDA and its infrastructure investments. The same can be said for programs such as HUD's CDBG program. In my home State of Texas, we use the CDBG small cities non-entitlement funds primarily for water and wastewater projects. According to the Texas Water Development Board, my State has over 3400 cities and unincorporated areas with inadequate water and wastewater facilities for residents and businesses. The cost to help these communities approaches the level of $5 billion.

Finally, Mr. Chairman, the members of NADO adamantly oppose the elimination of the EDA planning program for economic development districts. This modestly funded, yet highly effective program serves as the lifeline for the Nation's under-served and distressed regions. As concluded by a recent Wayne State University study, these organizations provide the critical backbone for economic development planning at the regional level. The planning districts use the EDA planning grants for more than just developing strategic plans. More importantly, we have built the professional expertise and organizational capacity to bring key public and private stakeholders together within our region. We are involved in our region's progress from the planning and design phase, right through to the actual implementation of the specific projects.

I must also note that the Administration is now introducing the concept of multi-year strategic growth plans. If the EDA district planning program was eliminated, our local communities would not have the capacity to craft, coordinate, and implement professional strategic plans.

In closing, Mr. Chairman and members of the Subcommittee, I want to reinforce our strong support for the current portfolio of Federal community and economic development programs, especially the Economic Development Administration, HUD's CDBG program, and the USDA's rural development mission area. We are deeply concerned about the potential loss of nearly $2 billion in Federal grant assistance each year for distressed communities. We are also anxious to learn more about the details of the Administration's plan, since the current proposal is only in brief outline form.

Finally, we are most troubled by the proposed elimination of EDA planning program for economic development districts. Without this essential program, our Nation's distressed and rural communities will be faced with severe burdens and obstacles in their pursuit of economic growth and prosperity.

And I thank you again, Mr. Chairman, and welcome any questions at the appropriate time.

Mr. SHUSTER. Thank you. Right as the red light went on.

Again, I am going to have to leave for a vote. I wanted to ask, first of all—we are going to recess. It is probably going to be about 20 minutes, I would think, at the most. Does anybody have to catch a plane that they need to get out? Like I said, I should be back in 20 minutes, maybe a little less than that. So we will recess for 20 minutes. Thank you.

[Recess.]

Mr. SHUSTER. The meeting will come back to order. I am a little out of sorts going back and forth. I am prepared, I can go down and stand on the sidelines, this is not a pro football game, help them manage the clock. But there is not going to be any interruptions now, so we can proceed.

Again, I want to thank all of you for your patience and for being here today.

A question I guess for all of you to field, and that is if each of you could tell me what your thoughts are on the role of public infrastructure and economic development, how important it is, where it sort of ranks in the economic development field. Start with you, Mr. Mayor, and just go down.

Mr. ANSPACH. Thank you, sir. I believe that infrastructure is important as you look at an economic development program, but I believe that economic programs have to be holistic. I was fortunate to go to a seminar where the Pella Company that makes windows did a presentation on what they were looking at when they were choosing a new site for their plant, and it was an eye-opening seminar for me because while certainly infrastructure was part of that, they also looked at the community as far as what recreation was available, what the safety was in the community, how the community looked, and there was a whole list of things.

So while I agree that infrastructure is important—obviously if there is no water there, they can't build a food plant that is going to process food—on the other hand, the first thing that a lot of companies do when they are coming is look at the entire community in a very holistic way. And that was, if I might say, that one of the reasons for urban areas that we look at CDBG as such an important thing, is that it allows us to develop a program over a number of years that addresses those issues with ultimately working also at the infrastructure. In my community we replaced water mains and streets regularly with CDBG monies. That works for our community.

Mr. SHUSTER. Mr. Fluharty?

Mr. FLUHARTY. I just would second all of that and say in a rural perspective, you know, Mr. Chairman, it is absolutely critical, if you look at my numbers, in terms of a 10-year period of Federal funding for community capacity, we are down—you can pick the number, but it is real money—close to half a trillion dollars in com-

munity capacity. I would also agree, however, that it is necessary; it is certainly not sufficient.

This was very intriguing to me. This year, I moderated a panel at the National Association of Development Organizations' annual conference in which they uniquely asked all the professionals in the room to do on-time polling of issues. It was a very fascinating conference. It remained their number one issue-infrastructure. It was very interesting. And in a rural perspective that is still absolutely critical.

Mr. SILVETTI. I will echo this gentleman's remarks with regard to infrastructure in rural areas. In rural areas with a dispersed population, putting in infrastructure becomes very expensive for individual users. In my written testimony I cite three recent EDA investments in our region, one in Huntington County, one in Southern Blair County, and one in Cambria County. The one in Blair County resulted in a $45 million investment by a regional corporation. The one in Huntington County resulted in investment of an electronics firm not that many years ago, and there was just an announcement within the last month for the industrial park supported with EDA grant of, I think, $600,000 where a company is going to build a $42 million plan in support of wind energy. That investment and infrastructure by EDA simply would not have occurred was it not for EDA's assistance in rural infrastructure. Vitally important.

Mr. SHUSTER. Mr. Jones?

Mr. JONES. Ditto, Mr. Chairman, as well. Infrastructure remains a top priority within our region. We are talking water, sewer, drainage, and also the water conveyance system for our water supply system coming from the Rio Grande River. And also that has expanded on a national level, as mentioned earlier, in terms of the NADO E Form. That was the overlying priority of all the regions nationally, was the infrastructure component.

Mr. SHUSTER. Mr. Mayor, if the funds currently being spent by CDBG were not being cut and were at current levels, would the League of Cities continue to oppose the President's plan?

Mr. ANSPACH. I believe that our position is, and certainly my position would be that if the Community Development Block Grant program remains funded at the $4.35 billion and $4.7 billion overall level, and it remains within HUD, that there would be no objection to the current program and no objection to the Commerce program.

Mr. SHUSTER. Why should it remain in HUD? If the Administration is going to put something together that is going to have the same kind of focus and the funding level, the League of Cities is still going to oppose?

Mr. ANSPACH. Let me answer for myself philosophically. I am philosophically a conservative, and I am against rearranging government just to rearrange government, because that rearrangement is going to cost money and it is going to be taxpayers' money. I would suggest that there is a program in place under CDBG that works. It is really, I believe, a poster child for a conservative philosophy in that it is a perfect Federal program that makes a block grant to the communities, and the local community makes the decision on how that money is used based on their five-year plan or

their needs at that time. And that is what we, as conservatives, believe, is that the Federal Government should become smaller and that the power should be divested to the local governments. The CDBG program under HUD does exactly that. So I would suggest that in that particular program, rather than spend money to transfer and move all the systems to another department, I would suggest that the old saying that if it isn't broke, don't fix it belongs in that particular category, sir.

Mr. SHUSTER. Mr. Fluharty, how would you respond to that?

Mr. FLUHARTY. I would make one comment on CDBG from a rural policy perspective. I would also agree with everything that was just stated. The one additional thing I would say is as we look at CDBG in the future, wherever those programs end up, we now have 600 micropolitan areas in the United States that are now a rural ″place″, that is, a Federal ″place″ designation. Those 600 regions are geographically dispersed across the United States and would create an interesting platform to alleviate the one disadvantage I see in CDBG, and that is the small cities program really doesn't allow multi-year capital or strategic financing to go forward. If we were to do something like that, it would improve the program for rural regions, if we were to create more of a regional focus. But beyond that, I think the real—

Mr. SHUSTER. Could you explain that a little more in depth?

Mr. FLUHARTY. Sure. As I say in my testimony, there are several states that have done really interesting things with their small cities CDBG, looking at what I talked about, which is to scale regionally to get advantaging for capacity, to compete in a global economy.

Mr. SHUSTER. And how big is that region you are talking about?

Mr. FLUHARTY. I would urge—

Mr. SHUSTER. Based on population or geography?

Mr. FLUHARTY. No. I would urge you look at the Rural Strategic Investment Program that I indicated was in the last Farm Bill. I think regions need to self-define, by the economic competitive niche they have. That is how the region should be defined. And then the question becomes to go to the conservative philosophy, ″How do we move the funds to the lowest possible level to let that competitive advantage express itself, across the landscape in a logical economic capacity?″ Right now, because of the small cities program dynamics, it is very hard for small communities to do multi-year planning; they just aren't sure it will be there.

I would urge this committee, if we are serious about rural, to think about a modus vivendi that would let that open up a bit. It would truly advantage better regional entrepreneurship development.

Mr. SHUSTER. We have tried very hard under Ed's leadership to work regionally.

Mr. FLUHARTY. Right.

Mr. SHUSTER. Ed, do you think the region that you have is broad enough? Do you think we should be expanding those regions or do you feel what we have with those—what is it, six counties, seven counties? Is that large enough?

Mr. SILVETTI. I think the area is large enough. I don't think it is too large. I think within our six counties, obviously, we have a

couple of different sub-regional economies, and they look at some different things, although with the loss of transportation jobs with the railroad, with the loss of coal and steel jobs, all of us are kind of diversifying and moving toward the same end. With respect to Strengthening America's Communities, I think some of those programs you really have different constituencies. And even though I think we do a really good job as a regional council in doing multi-year planning, I would be a little concerned about our success if we could bring together quite divergent constituencies that are represented by some of these programs. Some of the programs I think do fit together pretty well, some of the USDA economic development programs, EDA, but some of the others it is a little confusing to me, frankly, without seeing more details of this proposal.

Mr. SHUSTER. Right. And that is to be worked out if we are to move forward.

Mr. Jones, in your part of the world, Texas, you are a regional developer. How big are your regions?

Mr. JONES. We have one of the smallest in geographical area, a little over 3,000 square miles that is three counties. There are only two other three-county regions within the State. The balance could be as high as 15 to 18 counties, especially up in the panhandle region of West Texas. So it is quite large. But an interesting thing is that the boundaries, as they have developed from our creation back in the late 1960s, have been pretty much on target because there has only been very minimal county changes within the planning regions throughout the State in that length of time. So the development patterns are working well. Another reason for that, too, is I think our ability as individual development districts, councils of governments, to not only address the issues within our region, but also to work cooperatively with each other for those issues that may expand our immediate geographical planning boundary that affects the constituents that we serve as a whole.

Mr. SHUSTER. And the area is rural where you live?

Mr. JONES. Well, we are getting more urban. Right now our population is just a tad over a million, and it has grown enormously over the last 20 years in terms of development there on the border. But we have, even with that population base right outside immediate urbanized areas, it gets rural really quick. The majority of our municipalities are still well less than 10 to 15,000 in population.

Mr. SHUSTER. Mr. Mayor, what is the population of Lebanon now?

Mr. ANSPACH. Twenty-five thousand, sir,—

Mr. SHUSTER. Twenty-five thousand?

Mr. ANSPACH.—is the city population,

Mr. SHUSTER. I didn't think it was that big.

Mr. ANSPACH. It is a 50,000 person metropolitan area.

Mr. SHUSTER. And it is growing, isn't it?

Mr. ANSPACH. It is growing, yes, sir.

Mr. SHUSTER. That is what I thought.

Mr. Fluharty, you mentioned community capacity. Could you explain that a little more in depth for me?

Mr. FLUHARTY. Sure. It is really what the planning districts do, and it can occur from different institutional settings. But it really

is the glue, the ability to create a strategic sense of how organizations move forward to enable that to occur on the ground. It is really what these gentlemen do everyday. In some venues there is going to be an alternative intermediary come forward, but where these organizations are working, they are providing phenomenal glue to build where there is no capacity, unlike what exists in urban areas, as I indicated, with greater support from the Federal Government, the foundations, or corporate giving. That is the absolutely essential thing to understand about our rural competitive disadvantage. And that stewards public funds more effectively, because we need technical assistance and we need strategic thinking, to wisely spend the public's money. If that goes away, you lose the ability to do the right thing with public policy at the local level.

Mr. SHUSTER. And I think we lose—and maybe you could comment on this, all of you. We have a difficulty attracting capital. I think urban areas aren't having those problems. Can you comment on that and maybe some of the solutions that you have?

Ed, why don't you go ahead and start?

Mr. SILVETTI. I will say one thing. I listened to a presentation about a year ago through the Pennsylvania Governors Action Team, which manages the process of companies that are looking at Pennsylvania in which to locate, and there was a startling fact that I really hadn't considered before, and that is the vast, vast majority of prospects looking at Pennsylvania. We are looking at Southeastern Pennsylvania, an urban area, and the Pittsburgh Allegheny County area, which left, I think, something like 5 percent, at best, of prospects looking at the entirety of the remainder of Pennsylvania. Somebody, some entity, some agency, some public agency has to work on behalf of the rest of Pennsylvania, the rural area of Pennsylvania in developing projects and trying to attract capital that is going to create jobs, and I think that does happen within the framework of what we have. I think there is a decent process out there that the local elected officials and municipalities have been able to take advantage of successfully.

Mr. SHUSTER. Mr. Jones?

Mr. JONES. It gets back into the priority issue of infrastructure development I think in attracting business and industry within the respective regions, and that basic foundation is the key to attract folks. We had, less than 10 years ago, almost a critical economic situation with water supply issue in terms of the lack of water, and in terms of the negative impact that that had on the perception and folks looking at locating and actually starting and expanding businesses within our region became a critical issue. But that is looking much better now through a lot of reasons, and one with some initial funding from EDA. And to get within a region within our district, to be able to get some normally, in some cases, competing stakeholders together on the same page, with a central focus to make things happen, and we are making some headway on that.

Mr. SILVETTI. Could I add one more thing?

Mr. SHUSTER. Sure.

Mr. SILVETTI. I don't necessarily subscribe to the proposition that "build it and they will come." They will come; however, when you look at the investments that have been made—and I will just talk about our region—the investments that have been made in infra-

structure that supports business and industrial parks, the fact of the matter is we need that speculative investment, and where those investments have occurred we have had capital investment follow with the attendant jobs. It is that simple.

Mr. FLUHARTY. Mr. Chairman, if I could add.

Mr. SHUSTER. Sure.

Mr. FLUHARTY. I think I would be remiss if I did not say we can improve. And it is going to be really critical to understand we are in a global market, and we are going to have to export outside of our regions, and we need serious institutional renaissance in a lot of our regional capacities. That is the glue that these gentlemen bring, and you can simply see it. It is palpable on the ground when you are in a region and a good intermediary organization exists, or it doesn't.

But I will say there are issues in this Strengthening America's Communities initiative which I think must be re-examined, and I believe—

Mr. SHUSTER. Such as?

Mr. FLUHARTY. I think it is really critical to reassess asset-based development. Regions have different capacity, and I think if we do away with the planning and strategic infrastructure support for these districts and their work, that is going to go away, and that has been critical in making good public choice. I would actually argue we should increase that funding. We have local officials making multimillion dollar decisions, very often needing additional public decision support monies. Those don't exist right now, and they don't need to be competing with one another. I would argue that funding should increase. That would not be a drain on the public sector, it would make wiser public choice.

Mr. SHUSTER. And, Ed, I believe you use CDBG money for a planner or where is your funding stream coming from for a planner that you use?

Mr. SILVETTI. The funding that we receive to undertake planning principally comes from the Economic Development Administration in part, also some other Federal and State agencies. We do not receive directly CDBG funds; however, it is not unusual for us to interact with a city or a county which has CDBG funds and see those projects go into a project that we also are supporting by virtue of analyzing projects and making recommendations for other Federal investments with agencies such as EDA.

Mr. SHUSTER. Mayor?

Mr. ANSPACH. If I could, sir.

Mr. SHUSTER. Sure.

Mr. ANSPACH. Just to echo Mr. Silvetti, it is imperative that we do look across municipal boundaries when we are looking at how we address these things. I also sit on the Regional Economic Development Board, so I understand both sides of the equation, and it is very, very important, and we have in fact projects where we are using CDBG monies as part of the study in order to get something that is going to benefit multiple municipalities, and we are paying for our portion of it that way. And it is, I believe, a good thing, and we have to look bigger, larger away from just our community and look into the county and look into the next county.

Mr. SHUSTER. How big is your region of the board you sit on?

Mr. ANSPACH. It runs roughly from Lebanon County west to Chambersburg and Dolphin County, Lancaster, York, and that South Central Pennsylvania region.

Mr. SHUSTER. Well, again, I want to thank you all for being here.

Mayor, you had the first word and the last word, and that is appropriate being the elected official out there.

And I just want to thank you all for being here. I appreciate your views. Your views are important as we move down the road to look at this proposal. I have great concern that when we set up—and that is virtually what we are doing; they are saying we are not, but we are setting up a new agency, and I think that there is peril out there, when you do that, to not get an organization that takes some things that—EDA I think has done a very good job, and I would hate to see that lose its effectiveness in a larger organization. So I know that the ranking member, as I said earlier, has concerns, as do I, and we are going to be working very closely with the Secretary, and we would like to be able to tap into you for your input as we move down the road to be able to really get where the rubber meets the road, how would it affect you and what we could do to improve the various ways that those 18 organizations or entities operate.

I know that the ranking member has some questions that she would like to submit to you to have you answer, so we will do that.

I would ask unanimous consent that the record of today's hearing remain open until such time as all the witnesses have provided answers to any questions that may be submitted to them in writing. Unanimous consent during such time as the record remains open, additional comments offered by individuals or groups may be included in the record of today's hearing. Without objection, so ordered.

Once again, I can't thank you enough for coming here today. As I said, as we go through this process, it is imperative that we have people from outside the Beltway giving us their input, because you folks are going to be the ones impacted the most by a change in what we do here in Washington. So, again, thank you very much.

The hearing is adjourned.

[Whereupon, at 4:37 p.m., the subcommittee was adjourned.]

To strengthen and promote cities as centers of opportunity, leadership, and governance.

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Testimony of the Honorable Robert A. Anspach
Mayor, Lebanon, Pennsylvania

Before the House Transportation and Infrastructure Subcommittee on Economic Development, Public Buildings, and Emergency Management

March 17, 2005

Chairman Shuster, Ranking Member Norton and members of the subcommittee, thank you for the opportunity to appear before you today to discuss the Administration's proposed shift of Community Development Block Grant (CDBG) program to the Department of Commerce. My name is Bob Anspach. I am Mayor of Lebanon, Pennsylvania and appearing before you today on behalf of the Pennsylvania League of Cities and Municipalities (PLCM or the "Pennsylvania League") and the National League of Cities (NLC).

The National League of Cities, the nation's oldest and largest organization for municipalities, represents 18,000 cities and towns and over 140,000 local elected officials. Its mission is to strengthen and promote cities as centers of opportunity, leadership, and governance, and to serve as a national resource

and advocate for the municipal governments it represents. The Pennsylvania League of Cities and Municipalities network includes over 170 municipalities across the Commonwealth. The mission of the PLCM is to represent the interests of its membership and to serve local governments by providing programs, cost-effective services and legislation that strengthen the autonomy of Pennsylvania municipalities.

No matter the size of city, programs like the Community Development Block Grant (CDBG) program have played a critical role in rejuvenating distressed communities and alleviating economic decline throughout our nation's cities.

CDBG has played a critical role in rejuvenating distressed neighborhoods and alleviating economic decline in all types of communities. It is one of the best and only tools currently available to spur economic growth. However, CDBG is not just a jobs creator or economic development incubator, it is also a catalyst for affordable housing and new public infrastructure.

Take my city of Lebanon as an example. Using CDBG grant funds, the city collaborated with the YMCA, Community Health Council, Sertoma Club and the Commonwealth to build a skate park at the local YMCA for youth who can now skateboard in supervised and safe environment. The CDBG funds were used to close the funding gap and leverage funds from other organizations.

We have also used $365,000 in CDBG funds to fill the funding gap in a downtown redevelopment project. The project is a $4 million collaborative project that involves the Commonwealth of Pennsylvania, a private investor/developer and the City of Lebanon via CDBG funding.

This story is echoed in cities across America:

- Tuscaloosa, Alabama used $2 million in CDBG funds to renovate an area near the University of Alabama. The project helped create more than 100 new jobs and retained many more.
- Milwaukee, Wisconsin used the program to rehabilitate or construct more than 700 affordable housing units — and help more than 250 low income, first-time homebuyers live out the American dream.

Unfortunately, the Administration is proposing to eviscerate the CDBG program by shifting its funding to a new and significantly smaller program within the Department of Commerce. NLC and the Pennsylvania League urge you to reject the Administration's proposal and to maintain CDBG as a distinct and separate program within the Department of Housing and Urban Development (HUD).

A. The Administration's SACI Proposal Would Not Serve the President's Goal of Supporting Economic Development.

The Administration's SACI proposal will have a tremendous impact on the way the Federal government allocates community development funds. Unfortunately, it has offered little in the way of details to the various stakeholders. Therefore, it is difficult to quantify one's concerns

without knowing the specifics. However, based on the documents released by the Administration in support of the proposal, local governments have these initial concerns

Specifically:

1. The proposal would drastically reduce community development funding by roughly $2 billion -- funding local governments will not be able replace.

2. The proposal would significantly alter eligibility requirements to the disadvantage of some low- and moderate- income communities.

3. The proposal would narrow the performance standards from that of the current CDBG program to only economic criteria, a step that would drastically reduce the flexibility and effectiveness of community development monies.

1. The Administration's SACI Proposal Would Drastically Reduce Funding for Community Development Programs That Cities Cannot Recover.

The Administration's SACI proposal collapses 18 current programs, whose combined fiscal year 2005 budgets total approximately $5.5 billion, into a single grant program funded at $3.7 billion. The Administration's proposed budget for SACI grants represents a funding cut of nearly 35 percent from what Congress allocated in fiscal year 2005 for all 18 programs. This cut disproportionately harms CDBG funding because CDBG's fiscal year 2005 funding level of $4.7

billion represents nearly 80 percent of the $5.5 billion of combined funding. Moreover, the proposed $3.7 billion for SACI grants is $1 billion short of CDBG's current funding level.

The Administration claims that it is seeking to "retarget and refocus" these funds to create new program efficiencies. However, from a practical standpoint, NLC and the Pennsylvania League question whether moving the programs from HUD, where administrative and professional infrastructures already in existence and functioning, to the Department of Commerce will generate any real savings because building the agency's capacity to administer the programs alone would likely consume any cost savings derived from consolidating these programs.

2. The Administration's New Eligibility Criteria Would Ignore the Needs of Many Low- and Moderate - Income Communities.

The Office of Management and Budget (OMB) claims that SACI will better fund communities most in "need of assistance" by creating new eligibility criteria around national job loss, unemployment, and poverty rates. Too many communities, it says, receive funding that they no longer need, even though many of these communities have poverty rates below the national average.

The details are still unclear as to which communities will be eligible for SACI grants, but it seems clear that they must, at the very least, have poverty and job loss rates above the national average. If this is so, then Administration has made the mistaken assumption that impoverished neighborhoods no longer exist in communities ranking above the national average on the poverty and job loss index. We at the local level know however, that this is far from reality.

Using national averages to measure assistance needs ignores the reality that our nation is comprised of local economic regions that are unique. For example, the majority of families who earn below the regional median household income in the greater Washington, D.C. - Baltimore metropolitan area may earn more than the national poverty rate, but they are just as much in need of assistance because the cost-of-living in this region is significantly higher than the national average.

Throughout Pennsylvania, when you travel to virtually every city, from large to small, you do not have to drive very far to find the areas of our cities and towns where poverty and despair still reign. This one-size-fits-all approach proposed by the Administration will likely stifle the flexibility and effectiveness currently found in CDBG that helps cities make development decisions that are appropriate to their community. Without this flexibility and decision making autonomy, many of these neighborhoods will be forgotten and remain in poverty and despair.

3. **The Administration's Proposal Would Narrow Performance Standards, Drastically Reducing the Flexibility and Effectiveness of Community Development Monies.**

OMB claims that programs like CDBG have no measurable results. The Administration's proposal suggests new performance standards like job creation, new business formation rates, commercial development and private sector investment as tools to determine whether communities receiving SACI funds are achieving results and thus, their eligibility to retain funds or to earn bonus grants.

foundational beginning for any plan to attract new commercial and residential development in the future.

Since its creation in 1974, CDBG has had a three-pronged mission to: (1) benefit low- and moderate-income individuals and households; (2) eliminate slums and blight; and (3) address the urgent needs of communities faced with a serious and immediate economic or health threat. These goals have allowed local government broad latitude in how it uses grant funds, and whether that use is for the creation of new economic development opportunities, affordable housing, public facilities, or services. Ultimately, these goals have given cities the latitude to address "urgent needs" like eliminating drug dens and other cancers on our communities -- latitude not found with other programs. It is because of CDBG's flexibility and autonomy of local control that the CDBG program has become, from the local government perspective, the most effective form of federal assistance currently available.

If the Congress alters the CDBG program as proposed, however, we in Pennsylvania fear that the state's entitlement cities will be placed in direct competition with non-entitlement cities as well as with larger municipalities located across the nation. CDBG communities have already faced reduced funds from the program. This problem does not necessarily stem from huge cuts in CDBG funding. Instead, it is the result of a continued and growing need. More simply put, more communities have been competing for a static or slightly decreasing pot of money. Now the Administration proposes to cut that scarce funding by a total of nearly $1 billion ($2 billion if one includes the other 17 community development programs). This cut can only exacerbate the

problem and increase competition among localities. To say that the SACI proposal is a compassionate attempt to bring more money to distressed areas like those in Pennsylvania is to deny the reality that there will be less funding for an ever-larger universe of need.

B. **The CDBG Program Should Remain Flexible and Distinct from Other Community Development and Economic Development Programs and Should Be Level Funded for FY 2005.**

The long-standing goal of community development has been to improve the physical, economic, cultural and social conditions and opportunities a community offers its residents. For this reason, NLC and the Pennsylvania League urge Congress to work with state and local governments as full partners in achieving this goal. Over the last 30 years, the CDBG program has served as an excellent example of a successful federal and local community development partnership. For this reason, we will continue to advocate in Congress for a fully-funded CDBG program at HUD that is distinct and separate from other economic and community development programs.

NLC and the Pennsylvania League will strongly support legislation that funds CDBG formula grants at no less than $4.35 billion and the overall program at $4.7 billion. Moreover, we will support legislation that keeps the CDBG program within the HUD account and provides a direct, flexible and reliable source of funding to local government. Lastly, NLC and the Pennsylvania League will seek to maintain the current "dual formula" system where at least 70 percent of CDBG formula funds go directly to cities.

City of Lebanon

OFFICE OF THE MAYOR

Robert A. Anspach, Mayor

400 South Eighth Street
Lebanon, PA 17042
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April 11, 2005

The Honorable Bill Shuster
Chairman
House Transportation and
Infrastructure
Subcommittee on Economic
Development,
Public Buildings and Emergency
Management
United States House of
Representatives
Washington, DC 20515

The Honorable Eleanor Holmes
Norton
Ranking Member
House Transportation and
Infrastructure
Subcommittee on Economic
Development,
Public Buildings and Emergency
Management
United States House of
Representatives
Washington, DC 20515

Dear Chairman Shuster and Ranking Member Norton:

On behalf of the National League of Cities (NLC), the Pennsylvania League of Cities and Municipalities (PLCM) and the City of Lebanon, Pennsylvania, I would like to thank you for inviting me to testify before the Subcommittee on Economic Development, Public Buildings and Emergency Management (the "Committee') on March 17, 2005. As you know, NLC and the PLCM are very concerned about the Administration's proposed, Strengthening America's Communities Initiative (SACI). We are especially concerned that the SACI proposal would eliminate the Community Development Block Grant (CDBG) program along with 17 other important community, economic and rural development programs. In short, NLC and the PLCM believe that the Administration's proposal is short-sighted and ill advised.

In a letter dated March 21, 2005, you presented me with several follow-up questions that you and Ranking Member Eleanor Holmes Norton were unable to ask during the March 17, 2005 hearing due to limited time constraints. The purpose of this letter is to respond those inquiries.

Questions Presented By The Committee.

A. Questions Presented by Chairman Bill Shuster:

1. If the use of funds currently allowed by CDBG and the overall funding level did not change, would the National League of Cities continue to oppose this proposal?

2. If CDBG operates as a block grant program with a wide range of eligible uses, why does it matter what Agency it is housed in?

3. In your testimony, you note the existence of pockets of poverty in otherwise affluent cities. Can you as a local leader, and should we as the federal government, distinguish between communities that suffer from systemic poverty and those areas where there just happen to be people that are poor?

4. Would the National League of Cities support changes to CDBG that limit uses to eliminate overlap with other programs and focus its efforts exclusively on community development leaving the responsibility for economic development to those departments with specific expertise in those areas?

    a. Would you support consolidation of overlapping and duplicative programs that result in a larger pool of funding?

5. Why should communities that by all economic indicators are not facing major challenges continue to receive funding from the community and economic development programs?

6. Are there any changes that you would recommend to make the CDBG program more efficient?

B. Questions Presented by Ranking Member Eleanor Holmes Norton.

1. Please explain to the Committee your personal experiences with Community Development Block Grants (CDBG).

2. Please explain how the Administration's new initiative will alter eligibility requirements for grants to the disadvantage of low- and moderate-income communities.

3. You mention on page 6 of your testimony that the Administration's grant criteria will insure impoverished communities will be set up to fail. Please explain your statement.

Responses Offered by Mayor Robert Anspach On Behalf of NLC and PLCM:

A. RESPONSES OFFERED TO QUESTIONS PRESENTED BY CHAIRMAN SHUSTER.

1. NLC will oppose moving CDBG to the Department of Commerce because such a move would dilute the broad mission of that program.

Because it provides funding directly to cities and allows local autonomy and flexibility, CDBG has proven to be one of the most effective forms of federal assistance currently available to local governments. CDBG successfully mobilizes resources and addresses housing, community and economic development, and physical infrastructure needs. It is the most successful federal block grant and the model against which Congress should measure all future federal programs.

With this in mind, NLC will oppose any attempt to move the CDBG program to the Department of Commerce. The SACI proposal is an unknown program. Its structures and regulatory requirements are unknown. Even its mission is unknown.

What we do know, however, is that even if SACI has much of the same mission criteria of the new program, Commerce does not currently have in place the intra-agency infrastructure required to carry out the current CDBG mission. The primary mission of CDBG through HUD is to develop viable communities by providing decent housing, creating suitable living environments, and expanding economic opportunities (especially for persons of low- and moderate-income). The Commerce Department's Economic Development Administration (EDA) mission focus is solely on economic development. It therefore, does not have the intra-agency expertise to carry out the broader mission that HUD now accomplishes within its CDBG program. Commerce will have to expend a considerable amount of resources to obtain that mission expertise.

In a recent hearing before the House Government Reform Subcommittee on Federalism and the Census, even Assistant Secretary of Commerce David A. Sampson, the Administration's point person for SACI, admitted to this problem. The Subcommittee Vice-Chairman Charles Dent (R-Penn.) asked Sampson whether the Commerce Department has the expertise on staff to handle programs with components such as housing. Assistant Secretary Sampson replied, "With respect to leveraging expertise, we clearly understand that in consolidating all 18 of these programs, the new entity is going to have to leverage subject matter experts within the different programs in creating this new entity within Commerce . . . ."

By Sec. Sampson's own admission, Commerce would have to leverage outside expertise to meet CDBG's first two primary objectives. Even if Congress refrains from cutting overall program funding, start up costs and other expenditures associated with the move to Commerce would dilute funding that HUD could have used for grant making. This begs the question, if the Administration is serious about program consolidation for efficiency sake, would it not make more sense to move the smaller programs into HUD's CDBG program? There, the program activities the Administration supposedly envisions for the SACI program are already eligible. The fundamental question then, is why reinvent the wheel -- in this case, the CDBG program.

NLC strongly believes that the CDBG program works and Congress should not attempt to reinvent it within the Department of Commerce. NLC may, however, be interested in proposals that would expand the CDBG program with the smaller programs outlined in the SACI proposal.

2. HUD is the best agency to administer CDBG because agency currently has the programmatic infrastructure and institutional knowledge in place to accomplish Congress' intended mission for the program.

Building upon the answer provided above supplied for Question 1, NLC questions whether the Commerce Department has the capacity to administer a multi-billion dollar similar to CDBG program. HUD's $4.7 billion CDBG program dwarfs the Department of Commerce's $257.4 million economic development grant and loan programs. Together with its more than 1100 urban, suburban, and rural CDBG grantees, HUD currently has in place an effective infrastructure for program administration. This is because state and local grantees are already intimately familiar with the CDBG statute and its implementing regulations. This is a capacity and level of familiarity that is currently not available at the Department of Commerce. Both Commerce and local governments would have to reestablish relationships and develop new implementing regulations before the new program would begin to function efficiently.

Additionally, I am concerned, as is the NLC and the PLCM, about the issue of repayment of Section 108 guaranteed loans. Section 108 is a component of CDBG and allows communities to fund large-scale projects pledging future CDBG allocations to repay these loans. Many communities across the country have undertaken projects financed by Section 108 guaranteed loans and depend on their CDBG allocations for repayment. Without CDBG, these communities would be forced to repay these loans with their own funds. This would put many communities at risk of repayment default and/or reduce already diminishing local general revenues.

3. It is NLC's view that the Federal Government's role is to help all American's, not just those facing systemic economic downturns.

NLC's National Municipal Policy and Resolutions states that the organization broadly supports the following principle:

> The federal government must work to eliminate poverty, ensure basic quality of life for all Americans, and promote self-sufficiency. All levels of government must combine their resources and direct them toward the goal of self-sufficiency for all people. . . . [1]

From the philosophical perspective of a locally elected official, this question is best answered *infra.* in context with the answer to the Committee's Question Five.

4. NLC would not support changes to CDBG that limit its uses because it is the program's flexibility and autonomy of use that has made it so valuable and useful to local governments.

NLC policy states that it supports the federal government's efforts to simplify the grant-in-aid process, provide more local flexibility in setting priorities and implement programs, and encourage greater local accountability.[2] With that said, however, NLC strongly believes that "flexibility and local autonomy are the cornerstones of CDBG's effectiveness and continued success. NLC opposes the implementation of restrictive regulations with regard to diverse local and regional conditions."[3]

With respect to Subpart (a) of the Chairman's query, neither NLC nor the PLCM currently have policy on this matter. Without committing to a position, however, NLC is compelled to ask, as it has *supra* whether it would make more sense to move the smaller programs that comprise the SACI proposal into HUD's CDBG program instead of the other way around. As has already been noted, most, if not all, of the activities in those programs are already eligible uses for CDBG grant monies. If the Administration is serious about reducing program overlap and finding cost efficiencies, then it may make more sense for it to propose moving those programs over to HUD.

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[1] National League of Cities, 2005 National Municipal Policy and Resolutions, 4.03 (A), p. 69 (adopted Dec. 4, 2004).
[2] Id. at 3.03 (C)(5), p 41.
[3] Id.

5. Congress should deny access to CDBG low- and moderate-income individuals and neighborhoods funding simply because an arbitrary set criteria has classified their surrounding community as affluent.

This question can best be answered by asking a question in return: Why should low- income individuals and neighborhoods be denied federal resources simply because the surrounding community happens to fall above a bright-line economic test of overall community affluence? Congress' intent in creating the CDBG program has always been to address the needs of low- and moderate-income individuals. In fact, Congress stated that one of its primary objectives in creating the CDBG program was to achieve the "national housing goal of a decent home and a suitable living environment for every American family."[4] The use of the words "every American family" in conjunction with statutory requirements that 70 percent of CDBG funds go to low- and moderate-income communities is a clear expression of Congress' intent to provide community development assistance to these individuals no matter where they live.

In enacting the Economic Development Administration Reauthorization Act of 2004, Congress and the Bush Administration proclaimed, "the goal of Federal economic development programs is to raise the standard of living for all citizens and increase the wealth and overall rate of growth of the economy by encouraging communities to develop a more competitive and diversified economic base . . . ."[5] This too is a clear expression of Congressional intent to provide economic assistance to all distressed American neighborhoods, no matter the affluence of the surrounding community.

Still, Congress has the prerogative to change its mind and often does after taking a hard and deliberative look at how its programs and initiatives are performing over time. In this case, there are good reasons why Congress should not change overall goal of ensuring that community and economic development funds reach every distressed American community. The first expands upon the question asked above: why should these particular neighborhoods be denied access to federal resources simply because the community as a whole falls on the wrong side of an arbitrary bright-line? As I pointed out in my written testimony to your Committee:

> Using national averages to measure assistance needs ignores the reality that our nation is comprised of local economic regions that are unique. For example, the majority of families who earn below the'

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[4] 42 U.S.C. 5301(d)(3)

[5] P.L. 108-373, Sec. 1 (enacted, Oct. 27, 2004).

> regional median household income in the greater Washington, D.C. - Baltimore metropolitan area may earn more than the national poverty rate, but they are just as much in need of assistance because the cost-of-living in [the] region is significantly higher than the national average.[6]

In other words, applying the bright-line test suggested by the Administration makes the mistaken assumption that impoverished neighborhoods no longer exist in communities ranking above some national index of economic indicators. Worse, the proposition presupposes that local elected officials in many of these "affluent" jurisdictions will have the political capital needed to divert local tax revenues to more the impoverished neighborhoods within the greater community.

From a broader philosophical perspective, one on which neither the NLC nor the PLCM take a position, one may also ask whether a community that contributes tax dollars to the Treasury should be precluded from realizing a return of those tax dollars simply because they are deemed "affluent" by all economic indicators. This is a classic question centered on the notion of redistribution of wealth, but with a twist. In understanding this twist, it is important to note that the poor of any community also contribute to that community's share of tax dollars that flow up to the federal Treasury. Under the proposition, then, one could argue that the redistribution is not from the rich in one community to the poor in another, but from the poor in one community to the poor in another. One cannot deny that redistribution of wealth is an element of any community or economic development program. Still, a Congress that has consistently been uncomfortable with the notion of redistribution of wealth in the first place should seek to avoid enacting legislation that has the potential for unintended consequences like the one outlined above.

6. NLC and PLCM recognize that no program is perfect in its implementation and are willing to work with Congress to perfect further the implementation of the CDBG program.

Both the NLC and the PLCM recognize that Congress can improve the CDBG program. This coming summer, NLC's Community and Economic Development Policy and Advocacy Committee (CED) will begin studying how to improve the CDBG program and what recommendations it should make to Congress. CED will hold its first meeting on the subject in Denver, Colorado beginning in mid-June 2005. Both the NLC and the PLCM look forward to working with Congress in the coming months to make improvements to this important and valuable program.

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[6] Written Testimony of Mayor Robert Anspach, On Behalf of the National League of Cities before the House Transportation and Infrastructure Subcommittee on Economic Development, Public Buildings, and Emergency Management (Mar. 17, 2005, p. 5).

B. RESPONSES OFFERED TO QUESTIONS PRESENTED BY RANKING MEMBER NORTON.

1. Although Congress could make minor improvements to the CDBG, my experience as Mayor of Lebanon, Pennsylvania with the program has been generally positive.

As newly elected member of the Lebanon City Council, I was first introduced to CDBG program seven years ago. Since that time, my experience has been that the program truly answers many of the community's needs. More importantly, the program allows the community itself to direct the funds, with certain guidelines from the federal government, not the other way around. That, in my view, is one of the most positive aspects of the program -- local flexibility and autonomy of use.

While on the City Council, I discovered that most of the CDBG projects within Lebanon were benefiting government projects, such as, police overtime in low-mod areas, infrastructure, as well as, first-time homebuyer and repair of houses owned by low-mod income residents. Once I became Mayor, I began targeting blighted properties and moving larger amounts of money into major redevelopment projects. At the same time, Lebanon kept many of the previous projects but at a slightly lower funding level.

While I find the grants most useful and appreciate the flexibility the community has with the funds, it is my view that the system is overburdened with paperwork. Congress should streamline the annual Consolidated Annual Performance and Evaluation Reporting (CAPER) requirements and perhaps even make it semi-annual document.

Of particular concern to me as Mayor of Lebanon, a concern that one should not infer as the position of either the NLC or the PLCM, is the impediment to the effective use of the taxpayer's dollar caused the Davis-Bacon Act. In my view, there is no reason why a tradesman should command the same pay rate in Lebanon as in Philadelphia. Simply put, the market does not bear that cost. For example, living expenses in Lebanon are significantly less than in Philadelphia. Moreover, demand for those skills is significantly less in Lebanon than in Philadelphia[7]. While I understand the historical reasons for the Davis-Bacon Act, it is my view that the Act has served its purpose and now is a detriment. I strongly suggest that Congress

[7] Admittedly, one might argue the competition for these services is less in Lebanon than it is in Philadelphia, driving up the pay rate a laborer could command. One could also assume that Davis-Bacon would draw laborers to areas like Lebanon where wages would be artificially high but costs comparatively low. If market forces were left to operate alone, this reality would drive wages down as competition increased and demand dwindles. Therefore, it is clear Davis-Bacon causes project costs to be artificially high. The taxpayer must pay that bill. Without a serious inquiry into problems such as this, costs for programs like CDBG will continue to increase.

eliminate the Davis-Bacon Act or, at a minimum, not require its use for projects under $500,000.

2. The Administration's eligibility requirements for the SACI program are unclear and, thus, are difficult to evaluate.

In its initial white paper explaining the SACI program, the Administration said, "This new $3.71 billion consolidated grant-making program will provide funding to communities most in need of assistance by setting new eligibility criteria determined by job loss, unemployment levels, and poverty."[8] In briefings and hearings, Assistant Secretary of Commerce David Sampson has repeatedly referred to these eligibility criteria as "illustrative" of what might be used when the program is finalized. Without further details, it is difficult to determine how the program's eligibility criteria may disadvantage low- and moderate-income neighborhoods. Nevertheless, in testimony before your Committee and in within this document, I have described at length different situations in which these communities could be harmed.

3. Under the illustrative SACI Grant Performance Criteria, it is conceivable that deeply impoverished communities will not be able to meet performance goals in short periods.

The Administration has stated that its "illustrative" performance measures include "increasing job creation and new business formation rates as the real drivers of economic development. In addition, community development outcomes that measure progress will include increasing homeownership, including first time and minority homeownership ownership, commercial development, and private sector investment.[9] The Administration goes on to say,

> If communities do not show progress in meeting accountability measures, the Commerce Department will work with the community on a plan of action and will provide technical assistance to ensure that future funds are used wisely. Communities that are consistently unable to use taxpayer dollars to meet the accountability measures would stand to lose future funding.[10] *(Original emphasis removed)*

There are communities throughout the nation that are chronically poor and disadvantaged. That chronic poverty may stem from factors such as distance from

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[8] White House Office of Management and Budget White Paper, *President Bush Proposes Strengthening America's Communities Initiative*, Feb. 3, 2005.
[9] Id.
[10] White House Office of Management and Budget White Paper, *President Bush Proposes Strengthening America's Communities Initiative*, Feb. 3, 2005.

major economic centers and transportation corridors, lack of locally available resources or population migration. Consequently, these communities are less likely to spur significant new job creation or new business development in relatively short periods. It logically follows, then, that many of these communities will be "consistently unable to use taxpayer dollars to meet the accountability standards"[11] and will likely lose future funding. When standards for success are inherently unachievable, then those communities that are subject to evaluation under them are inherently set up to fail.

The proposed SACI program has also an additional component; a "bonus grant program" that the Administration intends to target toward "low-income communities that have already taken steps to improve economic conditions and demonstrate readiness for development"[12] (*emphasis removed).* This bonus grant will be "similar to the President's Millennium Challenge Accounts."[13] The Administration defines a development ready community as "one that is already taking steps to improve conditions in ways that have been proven to attract businesses [by] improving schools by meeting No Child Left Behind adequate yearly progress goals."[14] Basing a city's eligibility for the bonus grant on whether local schools meet No Child Left Behind (NCLB) goals ignores the fact that most cities have no control or jurisdiction over independently elected school boards. Performance of an area's schools is the responsibility of the school board, not the city. To punish the city for that which is does not control makes little sense. This proposed standard clearly shows a lack of understanding by the Administration of how local governments work or the political problems their elected officials face.

Conclusion

Again, thank you for the opportunity to testify before the Committee. It was a valuable experience. If you should have any questions regarding these responses, please feel free to contact me at any time.

Sincerely,

Robert A. Ingram

Mayor

cc: Jon P. Heroux, Senior Legislative Counsel, NLC
John Garner, Jr., Executive Director, PLCM

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[11] Id.
[12] Id.
[13] Id.
[14] Id.

Statement for the Record
Hearing on the Administration's "Strengthening America's Communities Initiative" and its Impact on Economic Development
Rep Earl Blumenauer
March 17, 2005

Inexplicably, the Bush administration has proposed the consolidation of 18 community development programs into a new "Strengthening America's Communities Initiative" (SAC) run by the Department of Commerce. It is ironic that the administration has given this title to a program that eliminates some of the most successful community and economic development programs, including Community Development Block Grants (CDBG), a program lauded by the administration as "set(ting) the standard for all other block grant programs."

CDBG is the most important federal tool for implementing local plans. CDBG currently works on a planning process that is based on the notion that local citizens are best suited to determine local priorities and visions for the future. It has provided local communities with a consistent, stable, flexible spending tool for locally-determined community-development priorities. Over its thirty year history, CDBG has leveraged nearly $324 billion in new private investment, a return of three private dollars for every one public dollar. In my hometown of Portland, Oregon, we have exceeded this rate of leverage through smart investments in community based initatives.

During Fiscal Year 2004 about nine percent of total CDBG program funding was dedicated specifically to economic development activities. Over 90,000 jobs were created or maintained due to this funding and over 76 percent of those went to low- or moderate-income persons.

The flexibility of this program and its ability to attract private investment has made CDBG an invaluable asset to Portland. Since the program's inception in 1974, CDBG has been used in one form or another in every neighborhood in Portland. Each year, the City of Portland receives approximately $16 million in CDBG and program income to spend on local priorities. The list of local accomplishments resulting from these grants is extensive:

- Over 7,000 affordable rental units have been rehabilitated.
- Over 17,000 low-income homeowners have been assisted with home repair activities.

- About 8,000 households have become new homebuyers.
- Over 19,000 individuals have received workforce training and/or job placement assistance.
- 250 storefronts have been improved in blighted neighborhoods, generating additional private investment and spurring active neighborhood revitalization.

While the elimination of CDBG will result in the most notable negative effects on communities, 17 other important community and economic development programs face elimination under Strengthening Americas Communities Initiative. HOPE VI, Empowerment Zones, and the Brownfields Economic Development Initiative would all be zeroed out under this proposal. The Brownfields Economic Development Initiative is one of the only federal funding sources that cities such as Portland, which do not have adequate new industrial land, have to entice industrial development.

The total proposed funding for SAC is $3.71 billion, $1 billion less that the budget for CDBG alone last year. Additionally, the way in which the funds are distributed would negatively impact cities like Portland that have been proactive in creating mixed income, integrated, livable communities. The president's proposal favors investment in highly distressed areas with poverty levels exceeding the national average. Despite the fact that Oregon has a poverty level in excess of the national average, Portland will most likely see cuts to its funding. Due to fifteen years of investment in low-income neighborhoods, few sections of Portland would appear to qualify for a catalyst of private investment when subjected to a competitive process with other large American cities. Furthermore, investment in distressed areas, does not necessarily spur the economic condition of the areas' residents. This often results in increased market values and the involuntary displacement of individuals and families in these neighborhoods.

Economic development has been successful at the federal level because CDBG has given communities the flexibility to use block grants to fund their unique needs. Due to the program's current ability to spur private investment, it is difficult to predict the severity of the negative impact on economic development this proposal will surely produce. I urge the Subcommittee to oppose this reckless proposal.

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rural policy research institute

Written Statement for the Record

Charles W. Fluharty
Director, Rural Policy Research Institute
Truman School of Public Affairs
University of Missouri-Columbia

Before the

Subcommittee on Economic Development, Public Building and Emergency Management
U.S. House of Representatives

Washington, D.C.

March 17, 2005

The Rural Policy Research Institute provides objective analysis and facilitates public dialogue concerning the impacts of public policy on rural people and places.

Chairman Shuster, Ranking Member Norton, and Members of this Subcommittee, I thank you for the opportunity to testify before the Subcommittee on Economic Development, Public Building and Emergency Management regarding the Administration's "*Strengthening American's Communities*" initiative, the role of infrastructure and planning projects in economic development, and the critical importance of approaching these policy decisions with an appropriate rural framework, to assure equitable access and utilization of these programs across our nation's entire landscape.

I am Charles W. Fluharty, Director of the Rural Policy Research Institute, located within the Harry S Truman School of Public Affairs at the University of Missouri-Columbia. RUPRI is a multi-state, interdisciplinary research consortium jointly sponsored by Iowa State University, the University of Missouri, and the University of Nebraska.

RUPRI conducts research and facilitates dialogue designed to assist policy makers in understanding the rural impacts of public policies. Continual service is currently provided to Congressional Members and staff, Executive Branch agencies, state legislators and executive agencies, county and municipal officials, community and farm groups, and rural researchers. Collaborative research relationships also exist with numerous institutions, organizations and individual scientists worldwide. To date, over 200 scholars representing 16 different disciplines in 80 universities, all U.S. states and twenty other nations have participated in RUPRI projects.

Mr. Chairman, in this testimony I will cover four primary points. First, I will review the rural context within which these programs must function in rural America. Next, I will discuss an exciting new rural community and economic development framework, which is taking form across our nation's rural regions, and should be taken into consideration by the Congress as you discuss these critical policy decisions. Finally, I will assess the "*Strengthening America's Communities*" initiative, with particular attention to the most important rural concerns and considerations, and discuss these vis a vis the existing CDBG framework. I will close with a summary set of recommendations to support a new rural regional innovation system.

I. The Importance of the Rural Community Capacity Context

In 1908, President Theodore Roosevelt appointed the Country Life Commission to consider, and solve, the so-called "rural problem," stating " . . . The social and economic institutions of the open country are not keeping pace with the development of the nation as a whole." Nearly a century later, while much progress has been achieved, significant rural inequities continue to challenge policy decision makers.

Today, we are in the midst of an emergent national dialogue regarding the development of a more integrative, asset-based and regionally focused rural policy. The attention this issue is receiving is by far the most substantive rural policy opportunity of the last 25 years, and today's policy discussion may indicate the potential for a dramatic new examination of these rural issues.

The Rural Federalism Challenge

Because the federal government will continue to devolve roles and responsibilities down to states and localities, often in block granting structures, the capacity of rural jurisdictions to compete for these funds is increasingly important. However, compared to their colleagues in urban and suburban governments, rural public decision makers are significantly disadvantaged. Most rural jurisdictions have relatively few or no research staff, grant-writers, technical assistance funding bases, or economic analysts. Many are led by part-time public servants, with few or no paid staff at all. On this uneven playing field, urban and suburban counterparts will almost always be victorious in competing with rural jurisdictions for scarce, competitively awarded state block grant funds.

Sadly, current federal policy exacerbates this structural disadvantage. The Consolidated Federal Funds Report for 2001 (the most recent reported data) shows that the federal government returned $6,131 on a per capita basis to urban areas, while returning only $6,020 to rural areas. This amounts to a nearly $6 billion annual federal disadvantage to rural areas. However, an equally challenging issue is the difference in the nature of these federal funds. In rural areas, 71% of these funds are transfer payments sent to individual citizens, in the form of Medicare, Social Security, Farm Commodity Program payments, etc. In urban America, only 48% of these federal funds are transfers. This 23% differential funding builds much of the community capacity and infrastructure of urban and suburban America. Therefore, with each passing year, these dynamics further disadvantage rural jurisdictions and organizations, who are forced to compete with their metropolitan counterparts on an increasingly uneven playing field, without benefit of the professional staff, technical assistance and planning resources which this funding secures.

This challenge is further heightened by the fact that Metropolitan Statistical Areas (MSAs) have a "place entitlement" to HUD Community Development Block Grants (CDBG) from the federal government, which assures that these funds will be available each year, allowing multi-year capital and program planning – an excellent aggregation tool for integrative, cross-sector public capacity building. This is also one of the most flexible federal funding programs. Unfortunately, rural towns and cities of less than 50,000 population and counties with populations of less than 200,000 must compete against one another for the smaller, state-administered "State CDBG" program, which is neither assured nor multi-year funding.

These community capacity disadvantages are stark, and additive. Each year from 1994-2001, the federal government spent two to five times as much, per capita, on urban than rural community development, and one third as much on community resources in rural areas. Per capita spending on community resources in 2001 was $286 per person less in nonmetro areas than in urban America, a $14.1 billion dollar rural community capacity disadvantage (based on 2003 metropolitan classifications of Census 2000 population).

The Rural Disadvantage in Foundation and Corporate Grantmaking

These rural community capacity challenges in federal funding are exacerbated by an equally uneven commitment to rural community and economic development by our nation's foundations and corporate grantmakers. In a May, 2004 report, the National Committee for Responsive Philanthropy noted that of the $30 billion distributed annually in by our nation's foundations, only $100.5 million was committed to rural development. Of 65,000 or so active grantmaking foundations in the United States, only 184 engaged in rural development grantmaking. About 20 foundations doing rural development grantmaking accounted for 80% of this total, and two foundations, the W.K. Kellogg Foundation and the Ford Foundation, constituted 42%. While the significant rural community and economic development commitment of these two foundations is commendable, these numbers indicate that the majority of grantmaking foundations in the U.S. have not seriously addressed the rural development needs of not-for-profits serving rural populations.

Sadly, the same rural differential disadvantage also applies to corporate philanthropy. While total corporate grantmaking in the U.S. amounts to $12 billion annually, a 2000 study of the 124 Fortune 500 corporations found that corporate grantmaking for rural, racial / ethnic organizations amounted to 1% of their total racial / ethnic grantmaking. In total, corporate grantmaking for rural groups constituted seven-tenths of one percent (.7%) of the grant dollars awarded by the 124 surveyed corporations for racial / ethnic giving. Rural organizations received only 153 of the 10,905 grants made, approximately 1.4% of all grants.

The Need for a Regional Rural Innovation System

Obviously, until these structural resource disadvantages are addressed, rural America must look internally to better its community and economic development opportunities. Rural regions must better aggregate and articulate a common vision; pool very limited resources, talents, and capacities from all sectors; and develop an assets-based approach in which new institutional partnerships between the private, NGO and philanthropic sectors link with under-resourced rural governments. Though challenged by the lack of technical assistance funding available for such efforts and the relative lack of philanthropic capacity and grant making in rural regions, rural communities have begun this effort. However, absent attention to these huge resource disadvantages, building the new rural innovation system outlined below will remain a significant challenge. In a globalizing economy, such developments are absolutely essential, if rural regions are to optimize their relative competitive advantage.

II. Building the New Regional Rural Innovation System

Given these very evident community capacity challenges, where should policy makers turn in building wiser public sector investments in rural community and economic development. First of all, we must acknowledge that what has worked in the past will no longer suffice. We live in a global economy, which requires understanding and

acceptance of a new economic geography. The old rural economy, based on commodity production, will no longer sustain us. Globalization advantages the lowest cost producer, forcing rural commodity producers, be they in agriculture, minerals, timber or manufacturing, to compete in a global system where even our advancing economies of scale may not enable U.S. producers to compete with those in nations with lower land, labor and input costs.

Asset-Based, Regionally Framed Development

Rural regions must rethink the premises upon which their economic development strategies are based. They must reassess their economic opportunities and redefine themselves by them! This requires public and private sector decision makers rethink the framework for community and economic development. This begins with an honest assessment of a region's unique competitive niche, based upon its internal assets. This niche must stand the test of the global marketplace, enable export beyond the boundaries of the region, and build upon a region's assets and its entrepreneurial capacity. Industrial recruitment is an ineffective public sector strategy in a global economy. Advantaging and capturing local wealth and local entrepreneurship is the wave of the future. In this approach, regions must exploit the potential for clustering opportunities, build synergies in technology adaptation, and create new economic models which underscore the interdependence of a region's key economic sectors.

The most critical component of this new paradigm is institutional innovation. Intermediary organizations to create and sustain these dynamics are the key to a region's future. Leveraging local amenities, including culture, heritage and history, investing in human and social capital development, building venture and equity capital mechanisms and advancing local infrastructure and advanced technology all require effective institutional intermediaries. In this regard, the most essential task is the crafting of a new regional governance.

The necessity for building this more integrative framework for rural economic and community development is gaining global attention. More than 120 senior policy officials, analysts and practitioners gathered near Washington, D.C., March 25-26, 2004 to discuss the future of these efforts. The Organization for Economic Cooperation and Development (OECD), the Federal Reserve Bank of Kansas City, The Countryside Agency, U.K. and RUPRI co-sponsored this international dialogue, which built upon deliberations regarding these challenges that have been ongoing within OECD's Division of Territorial Reviews and Governance.

While specifics of place, culture, and governmental structure vary across nations, there is a growing consensus within this OECD community that three major shifts must occur, if a new rural policy framework is to succeed:

1. Public policy attention to rural areas must shift from a sectoral to a much more integrated regional framework, in which multi-sectoral policy and program opportunities are coalesced within a place-based framework.

2. To accomplish this, public funding commitments must be re-aligned, shifting from a subsidy / dependency orientation toward one which captures and supports inherent regional competitive advantages.
3. A "New Rural Governance" framework must be developed, in and through which the above two shifts can be expressed.

Clearly, this is an emergent paradigm. However, many countries have already embarked upon this course, and the U.S. must accelerate our attention to this model.

A New Rural Governance

Governance is the process of making and carrying out decisions. In its most common use, governance refers to the management practices of govern*ments,* including cities, counties, special districts, school systems, regional governments, Indian reservations and states. Good governance denotes efficiency, effectiveness, good-value-for-the-money, and use of alternative administrative mechanisms.

Govern*ment* is the most recognized form of govern*ance*, but it is not the whole story. Effective governance incorporates a variety of decision-making and implementation practices by a wide range of people, organizations and institutions *beyond government*: non-profit groups, faith-based organizations, community foundations, citizen alliances, community colleges, business associations, and others. Moreover, effective governance incorporates *community building*: processes that develop leadership, enhance social capital and personal networks, and strengthen a community's capacity for improvement.

Effective governance builds the *foundation* to engage disparate people, spark good ideas and generate concrete results. It does the *ground work* that complements the *good work* of entrepreneurial development, community infrastructure improvements, artistic endeavors, or other initiatives. Moreover, effective governance provides the *glue* to coalesce and sustain achievements over the long-term.

A wide range of geographic, economic, political, cultural and demographic conditions exist across rural America. Certainly, some rural communities are privileged by strong amenities, proximity to a metropolitan area, etc., while others are not. But, all rural regions are governed in one way or another, and all can strengthen their governance system.

Rural Entrepreneurship

Rural economic development must overcome a number of obvious challenges. Low population size and density, and limited local demand make it difficult to achieve economies of scale. Efforts to achieve efficiencies drive consolidation, from school systems to financial institutions. Remoteness from global markets and infrastructure limits rural economic opportunities, and core connections to regional and global markets exacerbate these challenges. More poorly educated, lower skilled workers and a weak entrepreneurial culture have limited rural participation in the new global economy.

However, across the nation, a new rural entrepreneurial culture and climate is flourishing, based upon three principles: community-driven focus, regionally oriented action, and entrepreneur-based strategies.

To encourage rural entrepreneurship, communities must provide the immediate environment, which heavily influences entrepreneurial success. Communities need tools and resources to identify and build upon assets, make choices, learn, and innovate. Without community capacity and a commitment to intermediary organizations, this task becomes even more difficult.

As mentioned above, a regional orientation is essential. Political jurisdictions have no economic rationale, and few have sufficient resources in rural America to match opportunity with need. Regional cooperation is imperative. In this effort, arbitrary distinctions between urban and rural interests mask issues of common concern, and often retard regional solutions. Entrepreneurs need access to the full realm of regional economic drivers. Finally, we must acknowledge that current entrepreneurial development supports are less than fully effective, uncoordinated, and difficult to sustain in rural America. Most of these programs fail to differentiate between entrerpreneurs with different levels of education, skill sets or motivation. These supporting rural entrepreneurship must develop a systems approach.

If we are to achieve this, three steps are essential. Anchor institutions with the capacity to articulate a vision, advocate for change, build partnerships and attract and mobilize resources must be built. Secondly, supportive public policies which ensure adequate resources, send positive messages, and build programs with the capacity and flexibility to meet the needs of diverse rural regions must be crafted. Finally, these approaches must provide support and encouragement to both "opportunity" and "necessity" entrepreneurs, and avoid "picking winners." We must also acknowledge that failures will occur.

Four principles should drive these efforts:

- Focus on the entrepreneur. Systems thinking is required to properly organize and align the training, technical assistance, and financing programs that are available for small businesses and entrepreneurs. Focusing on the entrepreneurs and their needs, ensures that all these programs are corralled into a coherent system that allows entrepreneurs to obtain the support they need without being passed from door to door or given inappropriate advice.

- Focus on the region. Only through regional cooperation across jurisdictions and through regionally-aware institutions can there be sufficient scale, resources, and expertise to enable individual communities to play their full role as supporters of an entrepreneurial climate. It is rare for an individual county to be able to act effectively on its own in economic development, workforce development, transportation or any other complex public service activity. Economic regions invariably cross county and often state boundaries, and frankly these boundaries are irrelevant for the markets entrepreneurs have to be able to serve.

- Focus on the community. Local communities need the tools and resources to identify and build upon their competitive assets, and to make appropriate choices among economic, social, and environmental imperatives. Communities can achieve much if they are open to experimentation and innovation, but they will go nowhere if they continue to do what they have been doing for decades in spite of the changes that are going on around them.

- Focus on continuous learning. Entrepreneurs, policymakers, community leaders, and service providers all benefit from networks of peer support and learning. Entrepreneurs in particular rely on networks to share ideas, conduct business together, and link them to markets, capital, employees, partners, and services. Taking this one step further, entrepreneurship should without a doubt be an integral part of the school curriculum.

These principles, which became the focus of the W.K. Kellogg Foundation's Entrepreneurship Development Systems in Rural America national competition, elicited responses from over 185 rural regions across our nation. This is a very clear market indication of the willingness and excitement of rural institutions and organizations regarding this new rural regional innovation approach.

The Critical Role of Intermediary Organizations

Finally, and most critical to all the above, one of the crucial differences between stagnating and flourishing rural regions is the existence of engaged intermediaries. New research at Harvard University's Art and Science of Community Problem-Solving Project is explaining the subtle agents of change in communities, and the very critical role these organizations play in enabling development. Xavier de Souza Briggs defines intermediaries as people, organizations and institutions that add value to the world by connecting and supporting – i.e., by enabling others to be more effective. In rural America, these intermediaries may be close by (such as at a community college), at a regional level (such as a development organization or a council of governments), or farther away (such as community assistance organizations, agencies or private foundations).

In any case, the very special power of intermediaries is that they make things happen without calling attention to themselves. They initiate, but then step back, so that others can own and take credit for what happens. Often, intermediaries must, in fact, develop the market for the processes they wish to provide.

In rural economic and community development, this community capacity is in dire need of advancement. Whatever we do must be premised upon an understanding that essential infrastructure at the community and regional levels must be sustained. Absent this, and sufficient resources for this work, the best of federal efforts will not achieve optimal success.

III. *Strengthening America's Communities* Initiative

The *Strengthening America's Communities* Initiative has generated significant attention from the multiple sectors, organizations, stakeholders and constituencies which would be affected by this very substantive policy and program redesign. In the remainder of this testimony, I would like to assess this proposal from a rural policy perspective.

First of all, it is important to note the historic role the Economic Development Administration has played in the community and economic development of rural America, as has been noted in prior testimony before this Committee. This agency and its collaborating partners and organizations at the regional, state and local level have significantly advantaged the economic and community development of rural America.

Likewise, Assistant Secretary Sampson has also been a most effective spokesman and champion for the approaches I have outlined above, and has provided critical U.S. leadership while engaging the international OECD community on these regional and rural perspectives.

Unfortunately, the necessary detail to fully assess the rural economic and community impacts of the *Strengthening America's Communities* Initiative is not yet available. However, three primary considerations will eventually frame the rural assessment:

- Structural and programmatic design
- Eligibility criteria
- Standards and performance measures

Structural and Programmatic Design

For nearly two decades, RUPRI has criticized the lack of an integrated federal framework for rural development. The duplication, inefficiency and confusion generated by multiple categorical and block grants for community and economic development programs across our federal government have long been recognized. For limited resource rural jurisdictions, these challenges can be overwhelming, and quite often lead to inappropriate public policy decisions at the local level, or no action whatsoever. Therefore, the policy rationale for such a reorganization is certainly not in question.

Likewise, there is great merit in re-targeting policies and programs to assure those communities most in need of assistance are advantaged in federal funding. As President Deborah L. Wince-Smith of the Council on Competitiveness pointed out in her testimony before this committee in 2003, "The drivers of national prosperity are, in fact, becoming more localized . . . we cannot afford to leave our distressed communities behind or perpetuate ineffective models."

However, the immense need for rural infrastructure, regional strategic planning, community capacity building and support for local intermediary organizations outlined above must be a much higher priority, if this approach is to address these most pressing rural concerns. And, since these are a necessary sine qua non for appropriate job creation

and private sector investment, both laudable goals in this program, attention must be given to this dynamic.

The challenge, as with all public policies, is to assure that failures do not occur "in the middle." Here, my greatest operational concern is the lack of institutional infrastructure to assure rural communities and regions have full equity of access and engagement. Without sufficient institutional infrastructure to provide planning and technical assistance support for these functions, rural America will not fare well under this program.

Finally, community and economic development are both essential in this process. This is particular true in rural America, where community capacity remains much less robust. Lack of attention to the community development components of existing policies and programs, to be replaced by the "*Strengthening America's Communities*" initiative, will differentially disadvantage rural America.

Eligibility Criteria

As with all targeting efforts, assuring equitable rural eligibility criteria will be very challenging. Although specific criteria have not yet been published, it will important to address the high levels of working poverty, multi-job holding and underemployment in many rural areas. Unemployment criteria often mask these challenges, despite the fact that rural median family income is 25% lower, and rural poverty rates 28% higher than in metro areas.

Likewise, measurements which only address economic indicators, and miss the broader set of community capacity needs currently targeted by the USDA/RD and CDBG programs which would be replaced, will challenge rural areas.

Standards and Performance Measures

Again, while specifics have not yet been published, the *Strengthening America's Communities* initiative overview suggests a number of criteria that might be used for the Economic Development Challenge Fund, a bonus grant program for low income communities facing economic challenge. One of the proposed criteria for eligibility is yearly progress in meeting the No Child Left Behind program goals. Unfortunately, most rural policy makers and educators have already expressed the rural challenges with this framework. Likewise, since each state has a different NCLB version, it will be difficult to maintain national standards, as small and rural schools are treated differently across the landscape.

The CDBG Question

Obviously, comparison to the existing CDBG program has already been developed by most advocating organizations. While rural communities remain disadvantaged by CDBG, as mentioned above, a number of states have recently developed innovative approaches with "small cities" CDBG funds, to build regional strategies for rural

entrepreneurship. These developments are most encouraging, and federal policy should continue to allow these regional efforts to express themselves.

One possible vehicle for this will be the new "micropolitan" federal place designation. Nearly 600 rural growth hubs, evenly distributed across the rural landscape, would offer an intriguing jurisdictional framework for regional rural innovations systems.

Because RUPRI does not advocate, this testimony has not addressed the funding differential proposed for this initiative. As with the CDBG challenge, there is ample advocacy around this issue.

An Intriguing Option: The Rural Strategic Investment Program

Building a regional rural innovation system could take many forms. The potential exists to craft it within the *Strengthening America's Communities* initiative, as it does within existing CDBG dynamics. A most innovative approach was included in the 2002 Farm Bill, although it has not been implemented. The Rural Strategic Investment Program (RSIP), passed within the Rural Development Title of the Farm Security and Rural Investment Act of 2002, is one of the most innovative rural legislative initiatives in recent history.

It created a new National Board on Rural America, to administer this program, and expanded attention to regional strategic investment opportunities, which provided flexible funds for public-private partnerships to pursue innovative development strategies.

RSIP enabled self-selecting regional collaborations to craft entrepreneurially-based, regional competitive advantaging initiatives, for consideration by the National Board, which would certify these new Regional Investment Boards. It encouraged cross-sectoral, multi-institutional, and government / NGO / private sector collaboration, while not duplicating existing federal funding programs.

RSIP enabled the crafting of a regionally-appropriate, cross-sectoral, strategic vision; provided technical assistance funding to assure rigorous analytic support for assessing regional approaches; provided flexibility and accountability while also exploiting identified opportunities for innovative public-private collaborations within regional strategic investments; and assured performance oversight by the National Board in each step of the development, implementation and evaluation of these innovative regional strategies.

Summary

In summary, federal considerations of rural community and economic development policy must change to support new regional rural innovation systems. As outlined above, the following concerns should be addressed:

1. Focus must be on "new" regions and "new" engines.
2. We must shift from attraction to asset-based strategies.

3. The answers and solution tracks are regional and local, not federal, in nature.
4. Innovation must be at the center of it all!
5. Public investments must reinforce regionally assessed strategic priorities.
6. Rural and urban solutions should become more mutually supportive, if allowed.
7. Leadership must surface, to sustain this new collaborative approach.

Mr. Chairman, thank you for this opportunity.

NADO
NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Advocacy, Education, Research and Training for the
Nation's Regional Planning and Development Organizations

WRITTEN STATEMENT FOR THE RECORD

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LOWER RIO GRANDE VALLEY DEVELOPMENT COUNCIL
AND FIRST VICE PRESIDENT OF THE
NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

BEFORE THE
HOUSE TRANSPORTATION AND INFRASTRUCTURE SUBCOMMITTEE
ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS
AND EMERGENCY MANAGEMENT

WASHINGTON, DC
MARCH 17, 2005

EXECUTIVE SUMMARY

- The current portfolio of 35 federal community and economic development programs generally provides states and local communities with the flexibility, tools, incentives and resources necessary to pursue community improvement and job creation initiatives. While we agree with the Administration that every federal program should be reviewed and evaluated on a continuous basis, the primary weakness of the current system is a lack of financial resources to assist the thousands of local communities who are striving to build the physical and organizational capacity required to remain economically competitive.

- As the lead federal economic development agency, the Economic Development Administration (EDA) and its local partners have a proven and documented record of exceptional performance and accountability. As concluded in a comprehensive evaluation by Rutgers University and a consortium of research organizations, EDA projects help distressed communities create quality private sector jobs, leverage additional public and private sector resources, and respond to local conditions and circumstances. This is reinforced by the overwhelming bipartisan congressional and presidential support of the final EDA reauthorization bills in 1998 and 2004. It is also reflected by the recent induction of EDA into the prestigious Balanced Scorecard Hall of Fame™, joining only three other federal agencies.

- Inadequate public infrastructure remains the most significant road block to economic development in underserved and distressed regions, according to a national focus group conducted by NADO. With growing demands and pressures to build and upgrade the nation's public infrastructure, there remains an intense demand for planning, technical assistance and development resources to support local community and economic development efforts. The President's 2006 budget reduces the federal share in this effort.

- The President's economic development restructuring proposal eliminates the proven and essential EDA economic development district planning program, a vital resource for the nation's distressed and rural areas. As demonstrated in a comprehensive evaluation by the Center for Urban Studies at Wayne State University, the national network of 320 multi-county planning and development organizations has used the EDA planning program to establish an impressive record of facilitating and leading a comprehensive regional strategic planning process that "provides the critical backbone for economic development planning at the regional level...EDD activities are both effective and essential to local development."

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Thank you, Chairman Shuster and members of the subcommittee, for the opportunity to testify today on the federal policy and program issues related to local community and economic development, including the President's reform proposal *Strengthening America's Communities Initiative.*

My name is Ken Jones. I am the Executive Director of the Lower Rio Grande Valley Development Council, headquartered in McAllen, Texas. I also currently serve as First Vice President of the National Association of Development Organizations (NADO). My professional background includes 30 years in regional and local economic development, including 13 years in my current position.

In my testimony, Mr. Chairman, I plan to discuss the importance of the current portfolio of federal community and economic development programs. I will highlight the proven and documented success of the Economic Development Administration (EDA) in helping distressed communities establish the strategies, infrastructure and capacity needed to pursue economic growth opportunities. I will outline the intense demand for planning, technical assistance and infrastructure development resources that are needed to support and sustain private sector growth job. Finally, I will address the vital expertise and leadership provided by the national network of EDA-designated Economic Development Districts.

ABOUT NADO AND THE LOWER RIO GRANDE VALLEY DEVELOPMENT COUNCIL

The **National Association of Development Organizations (NADO)** provides advocacy, education, research and training for regional planning and development organizations primarily serving the 82 million residents of small metropolitan and rural America. The association, founded in 1967 as a national public interest group, is a leading advocate for a regional approach to community and economic development. NADO is part of the intergovernmental partnership among federal, state and local officials.

NADO members—known locally as councils of government, economic development districts, local development districts, planning and development districts and regional planning commissions—provide administrative, professional and technical assistance to over 2,000 counties and 15,000 municipalities. These entities administer and deliver a variety of federal and state programs. Based on local needs, programs may include aging, census, community and economic development, emergency management and homeland security preparedness, housing, small business development finance, transportation and workforce development. A policy board of local elected officials, along with community leaders and citizen representatives, governs each group. Associate members of NADO include state and local agencies, educational and nonprofit organizations, businesses and individuals.

The **Lower Rio Grande Valley Development Council (LRGVDC)** is a regional development organization serving the three southernmost counties of Texas, including Cameron, Hidalgo and Willacy counties. The multi-county region covers 3,019 square miles and a rapidly growing population of more than one million residents. Membership in LRGVDC consists of the governing bodies of each of the three counties, 40 municipalities, 14 educational institutions, 29 special purpose districts, one grassroots representative and ten members-at-large.

The organization provides administrative, professional and technical assistance to its local communities and governments. LRGVDC is an Economic Development District designated and funded by EDA, the Metropolitan Transportation Planning Organization for Hidalgo County and the Area Agency on Aging for the Lower Rio Grande Valley. The organization is involved in a variety of other initiatives, such as administering small business finance programs, assisting local governments with criminal justice, border health, homeland security preparedness, solid waste and water resource planning, managing local 911 services, and running transit systems for both urban and rural areas. Under a state program, LRGVDC also hosts a regional police academy and training center.

THE FEDERAL ROLE IN COMMUNITY AND ECONOMIC DEVELOPMENT

First, Mr. Chairman, the current portfolio of 35 federal community and economic development programs generally provides states and local communities with the flexibility, tools, incentives and resources necessary to pursue community improvement and job creation initiatives. While we agree that every federal program should be reviewed, evaluated and updated on a continuous basis, the primary weakness of the current federal system is a lack of financial resources to assist the thousands of local communities who are striving to build the physical and organizational capacity required to remain competitive in today's constantly changing marketplace.

NADO and its national membership of regional development organizations are deeply concerned that the Administration's proposal would cut $1.8 billion in federal funding each year for local community and economic development programs. It would eliminate essential federal assistance for community enhancement projects—primarily through the abolishment of HUD's Community Development Block Grant (CDBG) program—while establishing a new program focused almost exclusively on job creation initiatives. In addition, we are extremely concerned about the elimination of the EDA planning program for economic development districts. This modest but highly effective partnership program provides communities and regions with the expertise, incentives and leadership needed to plan and implement complex community and economic development strategies and projects.

While the Administration has criticized the current portfolio of 35 federal programs as cumbersome, duplicative and unaccountable, the members of NADO overwhelmingly disagree that the consolidation and merging of these diverse programs is the only answer. To start, it is necessary to outline the distinct differences in the mission and goals of community development versus economic development.

We believe community development is aimed at implementing a broad range of projects and initiatives that improve the overall quality of a community and region. This is particularly important in distressed communities who typically lack the fundamental building blocks needed to make a community more livable and attractive to the private sector. These community readiness activities usually involve developing basic public infrastructure to serve residents and businesses, establishing local leadership and civic capacity, promoting entrepreneurship and cultural offerings, enhancing access to business development capital, obtaining affordable and quality housing, education and health care services, and more recently, offering modern broadband and technology services.

Economic development is traditionally defined as activities and projects that are directly related to private sector job creation and retention. Both community and economic development projects are vital to the success of local communities and merit strong federal support. It is impossible for the federal government to counteract the overwhelming macroeconomic forces affecting local communities. However, federal programs such as EDA, CDBG and USDA rural development play a vital and specific role in helping communities rebound from economic challenges, replace lost jobs and gain hope for the future. Most importantly, programs such as the EDA planning program support and reward sound regional planning with realistic input and thinking about the future of local communities.

While the members of NADO strongly support the Administration's focus on program performance and accountability, we believe that a more thorough review and analysis is required before sound and effective programs such as EDA, CDBG and USDA's RBEG and RBOG accounts are abolished. In addition, it is important that the federal government not place such an unbalanced focus on demanding unrealistic outcomes and results for each and every project of these agencies. By definition, almost all of the federal economic development investments in distressed areas involve a certain level of risk, otherwise the marketplace would have already filled the demand and need. It is one issue to implement

rigorous performance and financial accountability standards for federal grantees, it is another to create a risk-adverse culture that shies away from addressing challenges and opportunities.

We remain concerned that the Administration is basing its restructuring proposal on the findings and conclusions of the Office of Management and Budget's (OMB's) Program Assessment Rating Tool (PART) process. Of the 18 federal programs slated for elimination, OMB only completed a review of half the programs. In addition, EDA received the second highest OMB rating of moderately effective, yet the agency is still being abolished and replaced with an unknown and undefined proposal.

We must also note that documents distributed by the US Department of Commerce say "the Administration would make these proposals regardless of the budget situation." While we recognize the importance of public accountability and prioritization of taxpayer resources, there is no disputing the overwhelming needs facing our nation's local communities. At a time when nearly every American business and community is confronting intense competition from emerging and underdeveloped nations the federal government should be expanding its resources and assistance, instead of cutting community and economic development grants by nearly 40 percent. Our distressed regions need national leadership, models of innovation and resources for locally-led projects and initiatives – instead they are facing more unfunded federal mandates and directives without accompanying federal matching funds.

Instead of abolishing the set of 18 existing programs, cutting federal assistance and creating a new federal bureaucracy, the Administration, Congress and key constituency organizations should work together to form a senior-level interagency working group and coordinating committee. This model retains the expertise and capacity of each federal agency, while promoting enhanced partnerships, cooperation and collaborations at all levels of government. The concept is already working in the 13-state Appalachian region as a result of legislation developed and adopted by this committee in 2002.

EDA HAS PROVEN RECORD OF EXCEPTIONAL PERFORMANCE AND ACCOUNTABILITY

Second, Mr. Chairman, the Economic Development Administration and its local partners have a proven and documented record of exceptional performance and accountability. As the only federal agency focused solely on private sector job growth and sustainability, EDA is a vital resource within the federal portfolio for distressed communities striving to improve their local economies. Whether it is through infrastructure grants, strategic planning assistance, business development capital or technical assistance, EDA programs are designed to promote economic development in impoverished areas. Most importantly, EDA investments are typically the seed funds or gap financing that make locally identified projects a reality in the nation's poorer areas.

By eliminating EDA, the members of NADO believe the Administration's proposal would severely weaken the federal capacity to help distressed communities over the long term. EDA has accumulated an inspiring record over the years in assisting areas that were struggling to overcome both long-term economic poverty and sudden and severe hardships. Through its diverse program toolkit, the agency is uniquely positioned to help areas recover from military base closures, manufacturing plant closings, natural disasters and declines in natural-resource based industries like coal, fisheries and timber.

EDA has also nurtured and developed important partnerships at the federal, state, regional and local levels. These relationships are an essential part of carrying out the agency's traditional "bottom-up" philosophy. As reinforced in various academic studies and evaluations, EDA programs and investments are efficient and cost-effective because they originate from a local planning process, require a substantial financial match from local grantees and focus on private sector job creation.

As noted, EDA was one of only three federal community and economic development programs rated as moderately effective by OMB. This is high praise from the President's budget office. The value and effectiveness of EDA programs and investments has been reinforced in comprehensive program evaluations conducted by Rutgers University and a consortium of research organizations. This in-depth series of studies examined the agency's public works, small business development loan fund and defense conversion programs.

Since its inception, the agency has created more than four million private sector jobs and leveraged in excess of $130 billion in private sector investments in distressed communities. In 2003 alone, according to the EDA's annual report, the agency helped create and retain more than 100,000 private sector jobs and attract over $10 billion in private sector investments. These are impressive accomplishments considering the agency has an annual budget below $350 million and that agency projects must be targeted to the nation's most distressed areas.

The commitment of EDA money to a project often serves as the glue for a project and makes it a reality. It also attracts and leverages a significant ratio of private sector involvement. According to the Rutgers study, the average EDA infrastructure investment has been leveraged historically ten to one by the private sector. Under the leadership of Assistant Secretary Sampson, the agency has set an ambitious goal of a private sector leveraging ratio of 22 to one. More importantly, EDA projects help distressed communities create long-term jobs at an average cost of $3,058 per job, among the lowest rates in government. The number of jobs created typically doubles in the six years after project completion. In addition, the Rutgers report underscores that the near-perfect on-time completion of EDA public works projects is the direct result of the planning phase that precedes project development and selection.

The EDA revolving loan fund (RLF) program is also among the most powerful and successful economic development tools for addressing the credit gaps that exist in many distressed communities, particularly in underserved rural areas. By using limited public funds to leverage private capital, nearly 500 locally managed RLFs have provided business capital to thousands of new and existing companies that have difficulty securing traditional bank financing.

The Rutgers evaluation revealed that almost 300,000 jobs were created and saved by RLF loans between 1976 and 1998. Research found that without RLF investments, over 76 percent of borrowers would have gone out of business, not started their companies, or canceled, delayed or scaled back the investments in their companies. In addition, for every dollar loaned by an EDA RLF an average of $4.50 is matched by private lenders.

NADO members are concerned that the President's new grant program would shift the focus away from successful programs such as EDA's technical assistance, economic adjustment assistance and public works programs. Under the Administration's plan, the fate of the existing network of RLF intermediaries is unclear. In addition, it is unknown whether regions and local communities would be eligible to use the new program grants to recapitalize existing RLFs or to establish new loan funds based on the proven and tested EDA RLF model.

As noted previously, EDA's mission, value and effectiveness has been validated repeatedly by Congress and numerous independent studies and program evaluations over the years. More importantly, the impact of EDA has been positively experienced in hundreds of urban, small metropolitan and rural communities that now have the infrastructure and capacity to strengthen their local economies. The same applies to programs such as HUD's CDBG fund and USDA's rural development mission area.

In my three-county region in south Texas, EDA has played a substantial role in creating quality, private sector jobs. One example is the McAllen Foreign Trade Zone, which has continuously ranked among

the most active foreign trade zones in the nation. The McAllen Economic Development Corporation, a partner of my organization, has used EDA assistance to improve local infrastructure, resulting in the creation of nearly 6,000 jobs within a highly distressed area.

Nationally, there are numerous examples of the positive impact made by EDA economic adjustment assistance, infrastructure and technical assistance investments in impoverished areas. In Northeast Mississippi, an investment of $1.5 million in a water supply project helped the region's struggling furniture manufacturing industry. By helping the water district expand its capacity, one local furniture factory added 300 new jobs, another furniture plant was able to retain 260 jobs and a local distribution center was established. Before the funding was secured for this project, commercial developers delayed the implementation of plans to locate or expand production in this area.

In Montana, an EDA investment of only $1.2 million helped to save 466 existing jobs and create 78 new positions in a distressed area around the City of Billings. With matching money from the city, the project involved the purchase of land, the construction of a new industrial access road, and the relocation of a city maintenance facility which was needed to allow a large food distribution center to expand. This project was only made possible with the EDA commitment and the planning and technical assistance provided by the Beartooth Economic Development District.

EDA invested nearly $3 million in infrastructure to sustain another major industry in Montana. A local company constructed a $550 million plant in Silver Bow, a city just west of Butte. The company converts metallurgical-grade silicon into silane gas and polycrystalline silicon products including rods and chunks. These products are then sold to other companies that use the material to produce single crystal wafers, which are later sold and used by companies, such as, Motorola, Micron and Intel to make semiconductor devices such as memory chips and microprocessors. Currently, 220 people are employed at the plant and an additional 60 jobs will be created in this small city. The average annual salary of the workers is $55,000.

In Illinois, the Southeastern Illinois Regional Planning and Development Commission served as a key partner with the Hamilton County Economic Development Commission and Hamilton County to leverage a modest EDA investment into a successful project. By bringing together local, state and federal resources, the group was able to convert an abandoned coal mine into a state-of-the-art industrial park with full service rail access.

Located in a rural county of 6,621 residents, the industrial park is on the property of the former Consolidation Coal Company's Wheeler Creek Mine. The park is surrounded by a rail loop that can support full train units, but the loop was disconnected from the main line when the spur was removed in the 1990's. Leaders in county government, economic development and private industry realized the potential of the site, and began to raise the $3.7 million necessary to restore the site's rail access and upgrade a township road to handle industrial traffic.

With seed funding of $380,000 from EDA, the group was able to secure the remaining funds from other federal, state and local funds to rebuild the rail spur. While the project is still in progress, the site has already attracted three businesses and pledges from several others. The project is expected to create 37 new jobs and retain another 33 in this highly rural area. In addition, the private sector is investing in excess of $3.5 million in equipment and facilities.

In South Carolina, Chester County faced difficult economic realities in the mid 1970s and early 1980s. The textile industry was declining and local mills began closing. The county's unemployment rate soared into double digits and the local population remained stagnant. However, the Catawba Regional Council of Governments and county officials began investigating the feasibility of taking advantage of

an untapped development corridor near a major interstate. The area already had rail service, a major natural gas line and a central water supply line. To be attractive to industry, the group needed to add sewage treatment capacity.

When a major grocery distribution center expressed interest in the area, an innovative funding package was created to implement the plan. With support from EDA, CDBG and the state department of transportation, an extensive sewer collection and treatment system was developed and expanded. This major project was completed in the early 1980s and led to several service extensions as new industries and businesses located in the area. In the late 1990s, a second EDA grant was used to provide service to a $50 million high tech industry and further expand the capacity of the sewage treatment plant to 500,000 gallons per day.

In the ensuing years, EDA's initial contribution helped attract and support a number of additional commercial and industrial businesses that moved into the area near the interstate. These include eight industries which have invested $261 million and created 760 new jobs in the distressed county. Five restaurants, five motels and several other businesses now cluster around the interchange and serve area businesses and travelers. Through these long-term planning and development efforts, the county's unemployment rate has stabilized and the county is now experiencing continued population growth.

In addition to EDA projects, our region and other communities across the state of Texas and the nation also benefit tremendously from HUD's CDBG program, USDA rural development programs and the entire set of federal community and economic development programs. The primary use of Texas CDBG funds, under the Governor's small cities program, has been to assist communities with basic water and sewer needs. Even in today's modern world, we are working continuously to provide residents and communities with first time access to clean water and proper sewer systems.

According to the Texas Water Development Board's recent water and wastewater studies, the state of Texas has approximately 3,433 cities and unincorporated communities that have inadequate water and wastewater facilities. Of the 1,100 communities not located on the US-Mexico border, the estimated need to either provide first-time services or bring existing systems up to current regulatory standards is $3.77 billion. These systems would serve more than one million people. Of the 2,333 communities along the border, the cost estimate is nearly $800 million for systems designed to serve 484,900 residents and countless businesses. Until underserved and impoverished areas have even the most basic of public services that are taken for granted in wealthier communities, they will struggle to be full participants and contributors in the nation's mainstream economy.

Economic and community development is an exhaustive and lengthy process that takes organizational commitment and capacity. With the leadership, partnerships and visions generated by EDA and the network of economic development districts, distressed areas such as my region in Texas and the Richburg area in South Carolina can overcome both chronic poverty and more sudden and severe market shifts that hurt local economies. However, it demands regional strategic planning, cooperation among public and private sector officials at all levels, and the ability to package various funding sources.

INFRASTRUCTURE DEVELOPMENT REMAINS MAJOR ROADBLOCK TO LOCAL ECONOMIC DEVELOPMENT

Third, Mr. Chairman, inadequate public infrastructure remains the most significant road block to economic development in small town and rural America. This commonly held view was reinforced during a national e-forum attended by more than 210 regional development planners, local elected officials and economic development professionals during NADO's conference in August 2004.

EDA has been recognized as a national leader and innovator in the economic development field throughout its history. Many cutting-edge practices have emerged from the agency's public works program, such as business incubator buildings, smart technology parks, eco-industrial parks and the redevelopment of brownfields. Without the financial and technical support of EDA and its local partners, most distressed communities in small metropolitan and rural America would never have the opportunity to implement these innovative projects.

Unfortunately, funding for EDA's public works program, along with most other federal infrastructure grant programs, continues to decline each year. Despite the leadership and commitment of this committee and the increased funding levels included in the agency's reauthorization law, the public works budget has decreased from $286 million in 2001 to $166 million in the current fiscal year. At the same time, grant assistance for basic public infrastructure development under USDA's rural development mission area has also steadily declined.

These cuts are being back-filled and justified with program increases in federal loan and loan guarantee accounts. For distressed and underserved communities, especially the smaller and more rural areas, this trend puts costly infrastructure improvement projects out of reach. As a result, these communities will continue to mark time in the land of lost opportunity.

According to a new report released by the American Society of Civil Engineers on March 9, the nation's infrastructure remains in serious need of improvements and increased federal investment. The conditions of the country's roads, drinking water systems, public transit, wastewater disposal, hazardous waste disposal, navigable waterways and energy system have worsened since the society's first report card in 2001. The improvement costs alone are now calculated at $1.6 trillion over the next five years. While state and local governments, industry and nonprofit organizations must and are making major contributions to our public infrastructure enhancement efforts, this immense job will never be completed without the aggressive leadership, participation and vast resources of the federal government.

In addition to the health and social benefits of this long-term and on-going process, infrastructure development is vital to the nation's ability to maintain and sustain a world-class economy. As proven by EDA investments over the years, the role of basic public infrastructure is at the core of both sustaining existing businesses and nurturing new companies. That is why EDA is so significant to local efforts to develop water and sewer facilities, industrial access roads, rail spurs, port improvements, worker skill-training facilities, technology-related infrastructure and other essential infrastructure projects. These are all fundamental for commerce, however the private sector relies, expects and demands that public entities provide and maintain these services and infrastructure.

In the southwest region of Oklahoma, EDA has made several valuable public works investments that demonstrate the value and importance of infrastructure development, even in the most rural of regions. The City of Clinton received EDA assistance to meet an overwhelming need for an improved sewer treatment system. Without EDA public works grant assistance and the staff support and expertise of the South Western Oklahoma Development Authority, the BAR-S Company would have been forced to close its plant in the community. Instead, this major community employer was able to retain nearly 400 quality jobs in this rural and distressed region.

In Anchorage, Alaska, EDA helped construct the "Welcome House," a 26,000 square foot building with galleries, performance spaces and facilities for cultural, educational and tourism programs for the Alaska Native Heritage Center. The 26-acre, $14.8 million complex also features walking trails, a lake, representative topography and depictions of traditional villages for the five major groups of Alaska Natives. This facility has made major contributions to the region's economy, culture and tourism efforts.

In Minnesota, a partnership between EDA, USDA rural development, the regional planning commission, a local rural electric cooperative and the City of Cambridge clearly demonstrates the power of comprehensive strategic planning and infrastructure development. The community has managed to preserve its small-town charm while attracting a diverse and healthy economic base. Its historic downtown supports an eclectic mix of shops, tech start-ups and service businesses – all catering to a growing population of 7,000 residents. It is now home to some 25 technology-intensive manufacturing companies and is at the forefront of creating hundreds of new living-wage head-of-household jobs in East Central Minnesota. At the core of this success story was the development of a cutting-edge industrial park with state-of-the-art energy and telecommunications infrastructure.

In Upstate New York, EDA and the Southern Tier West Regional Planning and Development Board have been instrumental in reviving an important short-line rail line. After EDA committed to an initial investment of $2 million the regional organization was able to secure an additional $2 million from the state transportation department to help re-open the line for the first time in more than ten years. Since 2001, this project has leveraged more than $26 million in private and public investments in the line, and more importantly, the traffic on the rail extension has grown from 71 carloads per year to 30,000 carloads today.

Employment at local companies have been created and retained, and a number of companies are more competitive today because they have alternatives for transportation service. This is particularly important in regions such as Upstate New York, which according to an August 2003 study by the Center for Urban and Metropolitan Studies at the Brookings Institution, ranks as the 3rd slowest growing region out of the 50 states and the worst region if you took out the prison industry.

EDA'S DISTRICT PLANNING PROGRAM: PROVEN LEADERSHIP IN DISTRESSED REGIONS

Fourth, Mr. Chairman, the members of NADO adamantly oppose the elimination of the EDA economic development district planning program. This modestly funded, but highly effective, program serves as a vital resource and lifeline for the nation's distressed and rural areas. As demonstrated in a thorough program evaluation by the Center for Urban Studies at Wayne State University, the national network of 320 multi-county planning and development organizations are effective at developing and coordinating local plans, implementing specific projects and initiatives, and providing professional expertise and capacity to distressed and underserved communities.

The Wayne State study concludes that economic development districts have used the nearly $18 million in annual EDA planning funds to establish an impressive record of facilitating and leading a regional strategic planning process that "provides the critical backbone for economic development planning at the regional level...EDD activities are both effective and essential to local development." The report further states that "EDDs very effectively use the EDA funding they receive. They have a strong ability to use that funding to leverage funding from other sources to pursue development activities."

More importantly, the analysis found that "There is a strong emphasis on capacity building. These activities appear to be extensive and creative, and are well received by constituents within the EDD region." This comment reflects the fact that the vast majority of the nation's local communities lack the financial and organizational capacity to hire and sustain a professional community and economic development staff. According to US Census Bureau data, 72 percent (or 2,178) of the nation's 3,034 counties have populations below 50,000 while only 856 counties have populations exceeding 50,000. Of the 35,933 municipal and township governments across the nation, 98 percent (or 35,195) have populations below 50,000 while only 738 encompass areas above 50,000 residents. Without the capacity achieved through the EDA planning program, the vast majority of these local governments and communities would lack the ability to pursue professional strategic planning and development activities.

The economic development districts use the planning program for more than just the development of a comprehensive regional strategy for economic development – the program provides these entities with the flexibility and capacity to serve as important drivers and implementers of regional and local projects. By matching the federal share of the EDA program dollar for dollar, local governments and communities are expressing their commitment to building the regional and local expertise required to pursue complex development initiatives and projects.

Almost every small town and rural county would like to have its own economic development practitioner on staff, its own revolving loan fund to finance small businesses, its own professional planner and GIS staff and many of the other luxuries of the nation's suburban and urban communities. By pooling their limited resources together through the economic development districts and regional development organizations, these cities and counties are overcoming their potential shortcomings to develop and establish a professional team of planners and practitioners. Most importantly, they have the added benefit of developing a more regional and collaborative approach to development.

In the southeast portion of the nation, a coalition of economic development districts is using an EDA planning grant to create the nation's first tri-state heritage corridor, now known as the Southern Passages: the Atlantic Heritage Coast. The objective of this multi-state partnership is to create job opportunities in the small rural areas along the once heavily traveled corridor of US 17 and Florida SR A1A from Charleston, South Carolina through Georgia to St. Augustine, Florida.

In Oregon, the Mid-Columbia Economic Development District played an instrumental role in a recent effort to bring Google to a facility at the Port of the Dalles. Nearly two years ago, a group of people representing a local port, city, county and public utility district started discussions to bring a fiber optic loop around the City of The Dalles and then connect to a point-of-presence on the Bonneville Power Administration fiber optic backbone. While it seemed a good project, the group was stalled and considered abandoning the project.

However, the Mid-Columbia EDD brought new resources and contacts to the group and a county-wide telecommunications plan was completed. The redundant fiber optic loop project has now been completed and the first major success story was announced only weeks ago. Google has signed a letter of intent to locate in the region, likely bringing hundreds of jobs to an area that has been economically distressed for many years due to the declines in the natural-resource based economy and the closing of two aluminum smelters. The planning grant funds provided by EDA gave the regional development organization the flexibility and capacity to play a key role in creating this opportunity.

The struggles of communities in the northern tier of Maine echo the constant challenges facing local economic development practitioners and the need for the stable presence and expertise of economic development districts. Anticipating a significant downsizing of its defense sector in 1993, the state of Maine prepared a plan that outlined a comprehensive strategy for dealing with a broad range of impacts, such as base closures, defense contractor layoffs, and ancillary firm downsizings.

Among the strategies was the creation of an RLF administered by the local EDA-designated economic development district. Since the Loring Air Force Base closed in 1994, the Northern Maine Development Commission (NMDC) has used its EDA-funded Defense Diversification Loan Program to make 17 loans, resulting in the retention of 261 jobs and the creation of 398 new jobs in this highly rural region. The loan program has made more than $2 million worth of loans that have leveraged more than $26 million in additional funds. These investments have assisted existing businesses affected by the closure to modify their business models, stay in business, and retain and add jobs. It also has financed new businesses that have hired dislocated defense workers.

Even with these successes it is necessary to remember that community and economic development is a risky and competitive business. For instance, Northern Maine made a loan in 1997 to Kent, Inc., a manufacturer of children's sleepwear. Kent bought back one of its original plants when Gerber moved its operations to Mexico. Through a public-private partnership, NMDC made a loan that leveraged private investments and other public funds worth six times the RLF investment, which allowed Kent to reopen the plant. However, after a change in federal laws to fire retardant requirements and the easing of import laws the firm went out of business. Now, a new Tribally-owned company that works on government contracts and a flatbed trailer manufacturer that expanded with the help of the Northern Maine Development Commission's RLF use the building.

In the Red River Valley area of Minnesota, the Northwest Regional Development Commission used its expertise and capacity gained through the EDA planning program to help a local community and area businesses within its region recover from a devastating flood in 2002. The City of Roseau was flooded following an intense storm that brought between 12 an 15 inches of rain. A makeshift set of dikes was overwhelmed and dozens of homes and businesses were destroyed along with much of the basic public infrastructure.

Roseau, the original home of Polaris Manufacturing and the current of home of its snowmobile manufacturing division, is a small town of 2,700 residents. Polaris employs nearly 1,700 people in the area and the company's facility was saved by a last minute effort including the stacking of sandbags and construction of a clay dike. Following the flood, Polaris was very clear on their position about the need for future flood protection: "Without flood protection for the entire community, Polaris Industries has no long term future in Roseau." Very intolerant of any government red tape or obstacles to recovery and safeguarding their investments, the company issued several deadlines to gauge progress.

With assistance from EDA, the Northwest Regional Development Commission moved quickly to assist with recovery planning efforts and eventually funding for critical flood protection and infrastructure projects from Polaris and the city. The group brought together representatives from all levels of government and the business sector to develop, and most importantly, implement a strategy to protect area companies and residents from future flooding. EDA helped fund one of the projects involving a large ditch to divert overland flood waters from the part of the city surrounding the Polaris facility.

These examples of the trials, tribulations and eventual progress of local communities are common throughout distressed regions of the nation. By fostering public-private collaborations and a regional approach to development, as concluded by the Wayne State University study, the network of economic development districts (and other regional development organizations) can continue "generating the kind of regional planning needed to effectively promote positive economic change."

A final point about the EDA planning program and the work of economic development districts is that these entities are held to high performance and accountability standards by the federal government and by local governments and communities. Under federal law and regulations, each organization is put through an organizational review and performance audit by EDA every three years. Each year, the organizations are required to have an independent accounting audit, including in most cases the more advanced OMB A-133 audit. In addition, each organization has a board of directors that consists of local elected officials, community leaders and citizen representatives. These stakeholders find it in their best interests to ensure the regional organizations are effective, efficient and serve local needs.

ECONOMIC DEVELOPMENT IN SMALL TOWN AND RURAL AMERICA

One of NADO's primary concerns with the President's economic development reform proposal is the potential negative impact on small metropolitan and rural America. Historically, these communities

have used EDA, CDBG and USDA rural development as core partners to build and improve the public infrastructure and organizational capacity needed to support private sector job growth.

Many of the nation's small metropolitan and rural regions are already struggling to overcome geographic isolation, whether caused by difficult terrain, open space or inadequate infrastructure. Many are trying to diversify local economies that have been historically dependent on a single industry, such as agriculture, coal, fisheries, timber and textiles. Furthermore, these communities are facing additional challenges that are compounded and exacerbated by declining employment bases, limited tax revenue to support new investments, high costs associated with diseconomies of scale and the ongoing difficulties of adjusting to population shifts and losses.

In examining the economic and business profiles of small town and rural America, the needs and opportunities facing these communities becomes apparent. According to the Center for the Study of Rural America at the Federal Reserve Bank of Kansas City, "Small firms account for 90 percent of all rural establishments." In fact, small business firms employ 60 percent of rural workers and supply half of rural payrolls. In all, according to the Center, nearly 1.2 million small firms are based in rural America. As expected, many of these firms are concentrated in the fast-growing service industries associated with accommodations, social services, retail, amusement and recreation.

It is essential that federal programs be flexible enough and targeted to help our smaller communities support and expand their existing businesses, especially those firms owned by local residents and interests. As featured in a March 2001 publication by the Federal Reserve Bank of Kansas City, "These companies are more apt to invest in the local community and region, they are less likely to relocate, and they typically assume leadership roles in the community." Programs such as the CDBG small cities program, EDA and USDA rural development have a long-standing tradition and understanding of this unique need.

The members of NADO are also concerned about the almost exclusive focus by EDA agency officials on the philosophy of cluster development. In evaluating the overall philosophy for local economic development, nearly one hundred percent of participants at NADO's national e-forum focus group in August 2004 responded that communities should pursue either a mixture of an industry cluster within a diversified regional economy or the development of a diversified regional economy.

This response reflects the fact that small town and rural economies have traditionally relied too heavily on one industry, whether it is agriculture, timber, manufacturing, coal, fisheries, tourism or other natural-resource based industries. By focusing all of a region's resources on one industry or cluster, it makes the area more vulnerable to shifts in national and global marketplaces, as well as advances in new technologies and consumer needs. Therefore, we urge the committee and Congress to maintain the local flexibility and control of the current set of federal programs, instead of pursuing a more "one-size-fits-all" approach to local economic development.

This is clearly evident by rural factory trends. From 1991 to 1998, according to the Center for the Study of Rural America, rural factory jobs rose more than 3 percent, 50 percent faster than job gains in metropolitan factories. However, this encouraging trend was short lived as rural manufacturing employment fell 4.6 percent in 2004, according to government statistics, representing a sharper drop than in urban areas for the second straight year. Nearly 140 factories closed their doors in rural America last year. Factory closings represented 45 percent of total mass layoffs at rural factories, compared with only 25 percent at metro factories. These figures are in sharp contrast to strong gains throughout much of the 1990s and unfortunately are more reflective of the competitive nature of most rural-based manufacturing companies that are mostly concentrated in food, textiles, timber, furniture and paper industries.

These statistics reinforce the reality that local economies and private sector industries are in a constant state of change, and are subject to subtle and severe shifts in technology, investment markets and global competition. Therefore, it is vital that rural regions develop the workforce, institutional and community systems required to be competitive in more advanced industries whether it is agriculture, advanced manufacturing, natural-resource based or technology related fields.

All of the nation's regions and local communities must engage in an on-going and dynamic strategic planning process, otherwise they will fall prey to complacency and world progress. Even local economies that are excelling today are subject to sudden or subtle changes in international, national and local markets. Loss of local control with the emergence of global companies, consolidation of banks and other industries that were once locally owned and controlled and other factors will continue to make the task of regional and rural development officials harder and more challenging.

CONCLUSION

In closing, Mr. Chairman and members of the subcommittee, I want to reinforce our strong support for the current portfolio of federal community and economic development programs, especially the Economic Development Administration, HUD's Community Development Block Grant program and the USDA's rural development mission area. We are concerned about the potential loss of nearly $2 billion in federal grant assistance each year for distressed communities. We are anxious to learn more about the details of the Administration's plan since the current proposal is only a brief outline. Finally, we are most troubled by the proposed elimination of the EDA planning program for economic development districts. Without this essential program, our nation's distressed and rural communities will be faced with severe burdens and obstacles in their pursuit of economic growth and prosperity.

Thank you again, Mr. Chairman, for the opportunity to appear today. The members and leadership of NADO look forward to working with members of Congress and the Administration to ensure that the federal portfolio of community and economic development programs are accountable, focused, efficient and results-oriented. I would welcome any questions.

NADO
NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Training, information and representation for regional development organizations serving small metropolitan and rural America

April 4, 2005

The Honorable Bill Shuster, Chairman
Committee on Transportation and Infrastructure
Subcommittee on Economic Development, Public Buildings and Emergency Management
US House of Representatives
591 Ford Office Building
Washington, DC 20515

The Honorable Eleanor Holmes Norton, Ranking Member
Committee on Transportation and Infrastructure
Subcommittee on Economic Development, Public Buildings and Emergency Management
US House of Representatives
585 Ford House Office Building
Washington, DC 20515

Dear Chairman Shuster and Ranking Member Norton:

On behalf of the National Association of Development Organizations (NADO), thank you for providing me with the opportunity to testify before the subcommittee on March 17, concerning the administration's proposed *Strengthening America's Communities Initiative*. Appearing before you on this issue of critical concern to small, distressed and underserved communities was a true honor.

Attached, please find responses to the additional questions submitted for the record. As the committee continues its deliberations on this issue, I welcome the chance to provide further comment and analysis. If you have any questions, please contact NADO Legislative Director Jason Boehlert at (202) 624-8590 or jboehlert@nado.org.

Sincerely,

Ken Jones
First Vice President

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House Transportation and Infrastructure Committee
Subcommittee on Economic Development, Public Buildings and Emergency Management

Questions submitted by Chairman Shuster:

1) **What is the role and importance of planning to economic development?**
In general, the planning process helps in adding focus, design, capacity and quality control to economic and infrastructure development projects. For example, within the Economic Development Administration (EDA), economic development districts use the planning program for more than just the development of a comprehensive regional strategy. The program provides districts with the ability to serve as drivers and implementers of regional and local projects.

The role economic development districts play in small, rural and undeserved communities is especially vital. The vast majorities of these communities lack the financial and organizational capacity to hire and sustain professional community and economic development staff. Without the capacity achieved through the EDA planning program, vast numbers of these communities would lack the ability to pursue even the most basic of development activities.

2) **What would be the impact of no longer funding local development districts?**
There would be a severe negative impact nationally. Discontinuing funding would cause economic development districts to close their doors or eliminate economic development services. There would no longer be a national network to provide consistent economic development assistance or the necessary coordination to encourage and facilitate regional economic projects. In many rural communities, job creation and infrastructure development programs would, quite frankly, cease.

Almost every small town and rural county would like to have its own economic development practitioner on staff, its own revolving loan fund to finance small businesses, its own professional planner and GIS staff and many of the other luxuries on the nation's wealthier communities. By pooling their limited resources through the development districts and leveraging the modest $18 million in annual national EDA planning funds, these cities and counties are able to overcome their potential shortcomings to develop and establish a professional team of planners and practitioners. Without this very modest assistance, the incentive and ability to undertake valuable regional development activities would essentially be removed.

3) **How do local development district employees support economic development on the local and regional level?**
Economic development district employees are the only existing link to the regional application to economic opportunities. All too often, local entities have their plates full focusing on economic challenges within their own discrete political boundaries. Economic development district employees are the only bridge between these communities to promote economies of scale and magnify economic opportunities.

4) **Besides increased funding, what changes would you like to see in the current system of economic and community development programs?**
Instead of abolishing the set of 18 existing programs, cutting federal assistance and creating a new federal bureaucracy, the administration, Congress and key constituency organizations should work together to form a senior-level interagency working group and coordinating committee. This model retains the expertise and capacity of each federal agency, while promoting enhanced partnerships, cooperation and collaborations at all levels of government. The concept is already yielding significant results in the 13-state Appalachian region as a result of legislation developed and adopted by the committee in 2002.

However, the fact remains that at a time when nearly every American business and community is confronting intense competition from emerging and developing nations, the federal government should be expanding its efforts to assist local community and economic development efforts instead of cutting grant resources by more than one-third each year.

Questions submitted by Ranking Member Norton:

1) **Much has been made by the Administration that the 35 existing economic development programs are "cumbersome, duplicative, and unaccountable." As one that is on the front lines of economic development, is that your perception? If you agree with that characterization do you believe that consolidation is the only answer to the problem?**
No program is ever perfect. However, the administration has not provided sufficient justification for the wholesale elimination of these programs. Especially when only about one-half of the 18 programs slated for elimination were actually reviewed by the Office of Management and Budget (OMB). Elimination is not the only answer. It should only be considered as the last resort upon exhausting other avenues.

While every federal program should be reviewed and evaluated on a continuing basis, the primary weakness of the current system is a lack of financial resources to assist the thousands of local communities striving to build the physical and organizational capacity required to remain competitive. In addition, the OMB PART process fails to recognize the specific purposes and diverse functions of each program as required by Congress. At the grassroots level, these programs target and serve different constituencies, community needs and local circumstances. This reality is entirely lost in the administration's proposal.

2) **What has been your experience with the planning grants? The new Administration proposal would eliminate these grants and focus more on job creation. What role have planning grants played in your community?**
The local organization I represent, Lower Rio Grande Valley Development Council, was one of the first regions designated as an economic development district in the nation. In the late-1960s, the region realized the potential of the planning program by merging the economic development district with the newly formed council of governments.

By having coterminous boundaries, the EDA planning program has been the focal point for the organization's regional activities. The Comprehensive Economic Development Strategy

(CEDS) serves as the basis of overall regional strategic planning bringing local entities together for a coordinated economic effort.

With the ever changing regional economic climate, economic development districts provide a proven and trusted foundation to support local communities in times of need. There is no way to replicate or replace the existing district program with the modest investments of the past and have a comparable level of local governmental or business support, respect or confidence.

3) **In your testimony you suggest, instead of budget reduction and consolidation, establishing a senior level interagency working group and coordinating committee. I believe this committee established a similar entity in the recent bill to reauthorize the Appalachian Regional Commission. Briefly explain how your suggestion would work.** I believe the economic development coordinating committee could operate in a fashion similar to the one established in legislation reauthorizing the Appalachian Regional Commission in 2002. The role of a senior level working group would be the coordination of federal economic and community development programs across departments and agencies, especially those serving small, distressed and under served communities. The working group could serve as advocates and ombudsmen working to minimize duplication and increasing the responsiveness across the entire federal economic and community development portfolio. In addition, it would provide a focused strategic approach to serving distressed and underserved communities.

STATEMENT BY CONGRESSMAN JOHN R. "RANDY" KUHL JR.

I would like to thank the Chairman and the Ranking member for arranging this hearing. I would like to thank Assistant Secretary Sampson for joining us to discuss this important issue.

When I travel around the district I represent in New York State, people tell me what their concerns are. The answer I hear over and over again is "JOBS, JOBS, JOBS". Economic development and job creation are critical to our success as a nation as well as the betterment of our citizens.

The Economic Development Agency, affectionately referred to as EDA, helps all Americans. Simply put, EDA works. It is one of the most successful government programs in which seed money is placed to attract private investment. In fiscal year 2004, EDA placed $323 Million dollars in initiatives that brought in $10.4 Billion dollars in private funding. EDA provides the means for the private sector to create jobs for itself.

With EDA we are enabling those with less to achieve more. We are promoting job creation through the use of private funds. We are creating jobs and building industry. We are creating a new tax base. EDA is a success in its own right. It works. Why let a good and successful government program, be eliminated.

Without EDA the 200 employees in my district for Vulcraft of NY Inc. would not have been hired. Without EDA's grant of $865,000 in the City of Hornell, an additional $13 million in private investment would not have been realized to create economic revitalization.

My district is very thankful of the past help it has received from EDA, but to put it to death would just stop a main source of

funding which is contributing to the economic revitalization of the area. The Southern Tier Railroad, ACME Electronic Plant, Constitution Avenue Project, are just some of the projects for which EDA has provided the seed money, and now these projects are attracting private investment, which creates well paying jobs, and creates new taxpayers.

Under the Strengthening America's Communities proposal, EDA would no longer exist. Our communities are in favor of EDA and don't view it as a regulatory burden. The jobs and economic development that take place under EDA and the results that take place, should be a model for government programs, not something that merits taking money away from our communities.

Thank you all for your time. Mr. Chairman.

Statement of the Honorable Frank A. LoBiondo
Subcommittee Economic Development, Public Buildings and Emergency Management
March 17, 2005

I thank the Chairman for holding this hearing and taking a leadership role on this issue. I asked to sit in on this hearing because I have a very successful Round II Empowerment Zone in my District and I am concerned the administration's proposal to roll Empowerment Zones into the Strengthening America's Communities Initiative may undermine the progress we have made.

Over the past 5 years, the Cumberland EZ has created over 360 jobs to date with an additional 1,400 anticipated over the next 18 months. Cumberland County has funded over 165 initiatives through the EZ program and a $4 million loan pool is available to be reinvested back into the targeted communities. These projects are estimated to leverage a total of over $238 million in private, public and tax exempt bond financing. Put plainly, the Cumberland EZ has leveraged nearly $12 in private investment for every one dollar of public funding, a remarkable achievement that demonstrates the success and promise of the Zone.

I urge the administration to take a close look at Empowerment Zones and ensure any proposal they develop accommodates existing Zones. I will do everything in my power to ensure the success we have met with in Cumberland County is not lost.

Statement of Congressman Michael H. Michaud
On the Administration's "Strengthening America's Communities" Initiative and its impact on economic development
3/17/05

Thank you Mr. Chairman.

I want to begin by congratulating you on assuming the chairmanship of this committee. I have great confidence in your leadership, and working with our extraordinary Ranking Member Eleanor Holmes Norton, I know that we will all have a productive and valuable session together.

Today, we are here to discuss the Administration's "Strengthening America's Communities" Initiative and its impact on economic development.

Economic development is an issue that is near and dear to me—it is the reason I wanted to serve the people of Maine here in Congress.

For too long, I have watched the communities in my state slowly ebb away: victims of job loss, outmigration of young people, and relocation of businesses abroad.

We need to stop this trend. Our communities need to be re-invigorated with investment in infrastructure. We need to help our businesses succeed. And we need jobs.

To this end, I will soon be reintroducing my bill to create a Northeast Regional Economic Development Commission to address these needs. It is a bipartisan initiative that would apply the same successful model of the ARC to the Northeast, and I look forward to talking to you further, Mr. Chairman, about holding hearings on this in the near future.

Mr. Chairman, I approach the Administration's SAC proposal with an open mind. I agree that too often, our communities face a confusing web of programs when they seek federal help.

Our communities, especially rural communities, often do not have the expertise to work within this system effectively—so we need to make the system work better for them.

I do have strong concerns about the proposed elimination of the Community Development Block Grant program. Community after community in Maine has contacted me to underline the importance of this program.

I might suggest that we all think creatively about how to keep this program—which is so valuable and recognizable to our communities—intact.

I will close by saying how much I appreciate Mr. Sampson's presence here today. ~~Mr.~~ Sampson told me personally this week that the Administration wants the Congress to be a full partner in this effort—to help shape the future of our economic development programs.

I appreciate this cooperation and flexibility, and I personally value ~~Mr.~~ Sampson's candor, open-mindedness, and willingness to work with the committee to help craft a program that will truly help our communities.

Thank you.

3

STATEMENT
ELEANOR HOLMES NORTON
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND EMERGENCY MANAGEMENT
MARCH 17, 2005

Thank you Chairman Shuster. I am delighted to join you today for our first hearing and I am particularly pleased that you have focused the subcommittee on the issue of economic development. As a member of this subcommittee for 15 years who knows you and your work in the House, I am especially pleased you have become chair of this subcommittee. As you know, this committee and subcommittee have a rich history of bi-partisanship. We have benefited from a long line of Chairs like yourself who have worked to ensure that all members and their ideas are included for consideration and dialogue and that our policies and programs benefit all parts of the country.

Precisely because of our bipartisan tradition, I am concerned that in the President's budget proposal for fiscal year 2006, the administration is proposing an approach that undercuts these productive roles. The Administration proposes to consolidate 18 economic development programs into one program to be housed in the Department of Commerce. Further, the Administration is proposing to reduce funding for these programs by almost $2 b. My greatest concern is that the Office of Management and Budget (OMB) apparently selected these programs without fully analyzing their impact on distressed and underserved communities.

Of longstanding and special interest to this subcommittee has been our jurisdiction over the programs of the Economic Development Administration, which is an agency inside the Department of Commerce. This subcommittee has played a pivotal role in making these programs what are regarded today as among the best and most productive in the federal sector. Barely 6 months ago the subcommittee held hearings and worked with the Senate and the Administration to pass S. 1134 into law, which re-authorized appropriations for EDA for 5 years. Now it appears that the Administration wants to head off in a totally different direction and do away with an agency that it has just praised as particularly effective and efficient.

I am eager to hear from Dr. Sampson to learn what accounts for this u-turn regarding EDA and to hear the details of the Administration's plan. As always, I also am pleased to have witnesses from across the country who actually work with economic development districts, and according to the documented record of our hearings and the investigation of our subcommittee, have done an exceptional job.

Thank you Chairman Shuster for calling for this hearing. I look forward to working with you as we work through this and other initiatives this session.

STATEMENT
JAMES OBERSTAR
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND EMERGENCY MANAGEMENT
MARCH 17, 2005

Thank you Chairman Shuster for holding this hearing today.

I recall with great fondness working with your father, Chairman Bud Shuster, over many decades not only to preserve the Economic Development Administration (EDA) but also to reauthorize the agency so it could engage in its highly effective and productive program to address economic development in distressed and underserved communities.

We both recognized that EDA programs worked. They created jobs, and over time, paid for themselves. Through hard work and a series of field hearings we generated bi-partisan support to successfully enact the "Economic Development Administration and Appalachian Regional Development Reform Act of 1998" (P.L. 105-393 in 1997) to re-authorize the EDA for the first time in almost 20 years.

This afternoon we will hear from Dr. Sampson, Assistant Secretary, and Department of Commerce for Economic Development. Dr. Sampson is no stranger to this committee. Merely 6 months ago he worked with us to ensure the successful

reauthorization of EDA and spoke in glowing terms about its successes and his plans for the future of EDA.

However, this afternoon I expect Dr. Sampson will explain his change of heart why he believes a reduction in almost $2 billion, representing a 32 percent reduction in funding for certain economic development programs, ---- including those at his own agency, will benefit or strengthen America's most distressed communities. A small core of American cities is indeed experiencing economic prosperity, but there are literally thousands of communities struggling to enter or even re-enter the economic mainstream. Thus, the reduction in funding proposed by President Bush's budget seems to be, at a minimum, counter-intuitive. I am eager to hear his explanation.

Chairman Shuster, I also am eager to learn about the analysis used at the Office of Management and Budget (OMB) called the PART (Program Assessment Rating Tool), which placed 18 economic development programs into a consolidation pool. The analysis was intended to identify duplication, and inefficiencies in program delivery. Although there are scant details about this process, as I understand it, OMB reviewed 18 programs from 5 departments. Of the 18 programs, only 2 – the EDA and HUD's National Community Development Initiative, were deemed "moderately

effective" – which by the way is OMB's second highest rating. No program received OMB's highest rating of "effective".

I am informed OMB did not complete program assessment for 9 of the 18 programs, or 50 percent of the programs. Yet, this Committee and Congress and are being asked to accept OMB's prejudgment of ineffectiveness with out any analytical underpinnings.

Another troubling aspect of the President's proposal is the "top down" approach established in his initiative that forces communities to accept as grant criteria indices on unemployment, poverty, and job loss. These indices have traditionally placed a number of regions, both rural and urban, at a competitive disadvantage. For example, in the Midwest and Northern Great Plains, the most pressing factor of economic distress is the rate of out-migration. In other regions severe dislocation, plant closings, or even base closures cause sudden and sever economic downturn.

In contrast, the "bottoms ups" approach fostered by the EDA and its economic development representatives, and successful programs administered by the Appalachian Regional Commission (ARC) emphasize close, personal, and local problem identification and problem solution. – a tried and true grass roots approach.

Chairman Shuster, I look forward to what I'm sure will be interesting and informative testimony from our witnesses. I welcome all of them to our Committee hearing and look forward to working with you and them to ensure the continued viability of the EDA.

Testimony of Assistant Secretary of Commerce for Economic Development David A. Sampson before House Economic Development Subcommittee, Transportation and Infrastructure Committee

March 17, 2005

Chairman Shuster, Ranking Member Norton, Members of Congress:

It is a pleasure for me to discuss with you the President's Strengthening America's Communities Initiative, and his efforts to improve the effectiveness of federal economic and community development efforts.

President Bush's Strengthening America's Communities Initiative is an innovative approach to help our most-economically-distressed American communities get on the path to economic growth and opportunity.

Today I would like to share with you:

- The underlying principles behind the initiative;
- The case for reform; and
- The main points of the initiative.

Underlying Principles:

America's economy is strong, and growing stronger, but that growing economic strength is not felt equally throughout the Nation. As the members of this committee know, in low-income communities and in communities where traditional industries do not employ as many workers as they did a generation ago, opportunity can appear out of reach. President Bush believes that these communities can make the transition to vibrant and strong economies because of the entrepreneurial spirit, the vision, and the hard work of those who live there.

The President also believes that the goal of federal economic and community development programs is to create the conditions for economic growth, robust job opportunities, and livable communities, thereby encouraging a community's improvement and reduction of the need to rely on perpetual federal assistance. President Bush believes that all communities can make the transition to broad-based, vibrant 21st century economies because of the entrepreneurial spirit, vision, and hard work of the people who live there. The challenge in building growing, vibrant economies is that reliance on government and philanthropic resources alone to get the job done is an inadequate approach. There simply aren't enough resources to address the need. The real opportunity—in fact, the requirement for success—is to engage the much larger resources

of the private sector to change economic opportunities for our most distressed communities and citizens.

We want more resources to flow to the most distressed communities, so the challenge is to target and focus government resources to attract and leverage the power of private markets to renew communities.

Sound investments in community development efforts lay the groundwork for successful economic development efforts. Success in economic development is achieved by attracting private sector investment and higher-wage jobs. These successes lead to higher tax revenue at the local level that in turn can result in more community and economic development.

Why We Need Reform

In total, the federal government administers over 30 economic and community development programs housed in several different cabinet agencies. The Strengthening America's Communities Initiative addresses 18 of the direct grant programs within that portfolio.

As you can see from the chart (see chart entitled "*the Current Economic Development System is Fragmented*"), the current system forces communities to navigate a maze of federal departments, agencies and programs – each imposing a separate set of standards and reporting requirements – in order to access federal assistance. Some of these programs duplicate and overlap one another, and some have inconsistent criteria for eligibility and little accountability for how funds are spent. Most of these programs lack clear goals or accountability measures, and thus cannot sufficiently demonstrate any measurable impact.

Many communities with relatively low poverty rates receive federal funding at the expense of distressed communities, thereby undermining the purpose of some programs. OMB has studied the performance of many of the programs being consolidated, and it is safe to say that American taxpayers deserve better results than they are getting today.

Moreover, the status quo is not helping distressed communities across this country. Although it may make sense "Inside the Beltway," distressed communities across America do not understand why they need to spend local tax dollars to hire grant writers and experts to figure out how to access federal grant money from these 18 programs.

The current federal system largely involves five cabinet agencies (Commerce, Housing and Urban Development, Agriculture, Health and Human Services, and Treasury) with programs that share a similar mission of improving economic opportunity and the quality of life in America's communities. To ensure the efficient use of taxpayer resources and improve the focus on results, the Administration continues to look for ways to improve the performance of programs. In some cases, by focusing on one program at a time, we miss an opportunity to achieve comprehensive reform and increased efficiencies. The Administration's review of overall federal development efforts found that many programs are not only duplicative, but also unable to demonstrate any long term measurable results. While each program has achieved individual successes in treating the symptoms of poverty, the overall ability of these programs to heal the underlying causes of poverty is at best questionable. The President's proposal will focus our efforts at treating the problems instead of the symptoms.

Success is often hampered by this fragmented, and frequently duplicative, set of programs. In some instances, programs act in isolation from one another, even though they share the exact same purpose and serve the same populations. In other cases, funding is distributed almost blindly, based on outdated models and allocation algorithms that don't address communities' current demographic conditions. As a result, funding is spread thinly and not strategically targeted to have any impact on communities in need. The status quo is also unfair to small towns in rural America that do not have built in bureaucracies to tap into 18 different pots of federal money. The President's proposal

attempts to provide "one stop shopping" for federal grant assistance, and seeks to enlist Congress to support this streamlining of federal assistance for all users.

As you can see here (See chart entitled "*Strengthening America's Communities Initiative Would Streamline Federal Economic Development*), the Strengthening America's Communities Initiative simplifies access to the federal system, which will drastically reduce the administrative burdens currently placed on grant applicants and recipients and free local resources to focus on their programs and not on navigating a complex federal system.

Concerns about the status quo mirror the growing consensus among the nation's leading economists and economic development researchers and practitioners that because of the fragmented, unfocused, and duplicative nature of the programs, there is a need to fundamentally rethink and refocus the federal role in support of state and community efforts to promote the competitive ability of our communities to spur job creation in the 21st century economy. For example, the U.S. Council on Competitiveness recently issued a groundbreaking report, "Innovate America." In that report, over 400 corporate and academic leaders called for the consolidation of federal development programs in order to bolster America's competitiveness. America must rework its federal support system to keep communities in tune with a changing world-wide economy.

Research shows the need for strong support from the private sector to create sustainable job growth. EDA, one of the programs being consolidated, has made private sector leverage a key investment consideration. As a result, for FY2004, EDA attracted over $10.4 billion in private investment via its $323 million of grant funds. This funding will help save 34,488 jobs and create 125,604 new jobs. The communities impacted by the federal government and private sector working together will meet their competitiveness goals in a more efficient manner.

With these reforms government can help create a favorable business environment. Once this environment is created, companies and industries must ultimately achieve and sustain competitive advantage. The federal government's programs must help attract the private investment necessary to sustain economic progress.

Key Elements of the Initiative:

Let me now explain in further detail the actual proposal. As you see in this chart (See chart entitled "*FY2005 35 Economic and Community Development Programs*), the President's 2006 budget proposes consolidating 18 of the 35 existing federal programs into a single $3.71 billion unified grant making program. This program will target funding to those communities most in need of assistance and achieve greater results for

low-income persons and economically-distressed communities by setting new eligibility criteria determined by such things as job loss, unemployment levels, and poverty.

The new initiative will also simplify access to the federal system, and establish strong accountability standards, all in exchange for flexible use of funds by communities most in need. The consolidated program, which will be administered by the Department of Commerce, will have two components:

> 1) The "Strengthening America's Communities Grant Program" – a formula-based unified economic and community development grant program, representing the bulk of program funds, and

> 2) The Economic Development Challenge Fund, a bonus program modeled on the concept of the Millennium Challenge Account.

The Strengthening America's Communities Grant Program will require communities to track progress toward certain goals, including such things as increasing job creation, new business formation, and private-sector investment, from an economic development standpoint; and increasing homeownership—including first-time and minority homeownership—and commercial development, from a community development standpoint.

The Administration is committed to increasing the flexibility over and above that of existing programs. We recognize that each community is different and will need to take a different road to tackle its individual community and economic development challenges. We envision the legislation will provide ample flexibility for activities that currently are eligible for assistance to remain eligible to receive assistance in the future.

The initiative attempts to unify varied federal planning processes, including those currently used by EDA, which this committee has discussed in the past. Although the details remain to be determined, we envision multi-year strategic growth plans will be utilized to identify local needs and goals. The communities will have wide flexibility in the tools used to achieve these goals. However, strong accountability measures will ultimately measure results against goals set by the community in its plan.

The Economic Development Challenge Fund will provide a bonus to communities that have already taken steps to improve economic conditions and have demonstrated a readiness for development, such as improving schools by meeting the No Child Left Behind adequate yearly progress goals, reducing regulatory barriers to business creation and housing development, and reducing violent crime rates within the community.

Finally, we recognize that a lot of work lies ahead of us with regard to implementation of the initiative. The Administration will submit legislation for this initiative as part of a collaboration with Congress and leaders from within the stakeholder groups (including America's cities and counties), and we look forward to continued collaboration as the legislation takes shape. The Administration is committed to reaching out to our key stakeholders, to gain their insight and to build the legislation with their help and advice.

In addition, a Secretarial Advisory Committee is being created at the Department of Commerce to provide assistance with some of the most complex and contentious issues regarding this proposal, such as eligibility criteria and appropriate accountability measures. We believe that by working with economic and community development practitioners, the private sector, non profits, and leading experts, we can shape a government program that will improve the competitiveness of our communities and meet the challenges they will face in the 21st century. The Administration seeks the widest possible input to help shape the legislation we intend to send to Congress as soon as feasibly possible.

Conclusion:

States and communities must have the flexibility to apply development funds where they are most needed and they should not have to go through the current laborious process to access federal funds. At the same time, they must be accountable and be able to show tangible results for the federal funding they receive. This flexibility is critical to improving the competitiveness of America's communities and thereby improving the standard of living for those most in need.

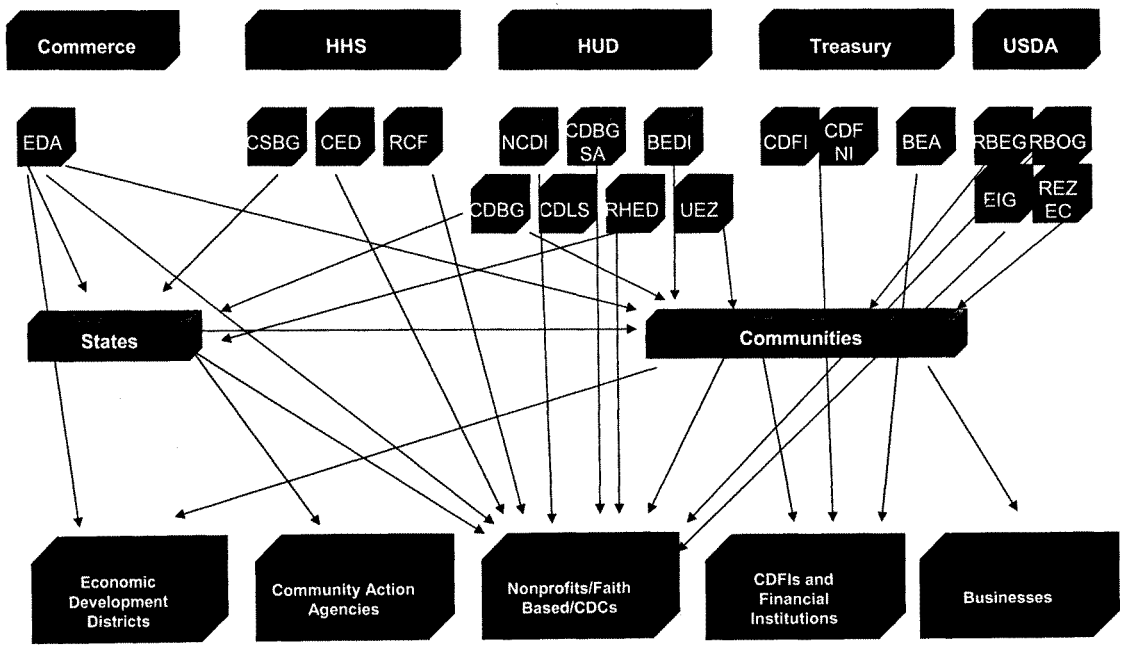
The federal government must also be more accountable to American taxpayers. For too long programs have been administered without requiring measurable results – and have been allowed to duplicate each other. This duplication is at the expense of our communities that most lack the resources to navigate the federal maze that currently exists. Currently, our federal efforts in this regard are based on precepts from the late 1960s and early 1970s that are no longer valid, or fair, to our neediest communities.

The President's proposed initiative is good for the economy, is good for distressed communities and is simply good government. It will position communities, regions, and states to be more competitive in the worldwide economy and most importantly, it will create more American jobs and a rising standard of living.

I appreciate the opportunity to explain this proposal to the committee. As I noted, there is much work to be done and I look forward to working with your committee to make sure that legislation sent to Congress is the result of an open dialogue with stakeholders and Members of Congress. I look forward to answering any questions that you may have.

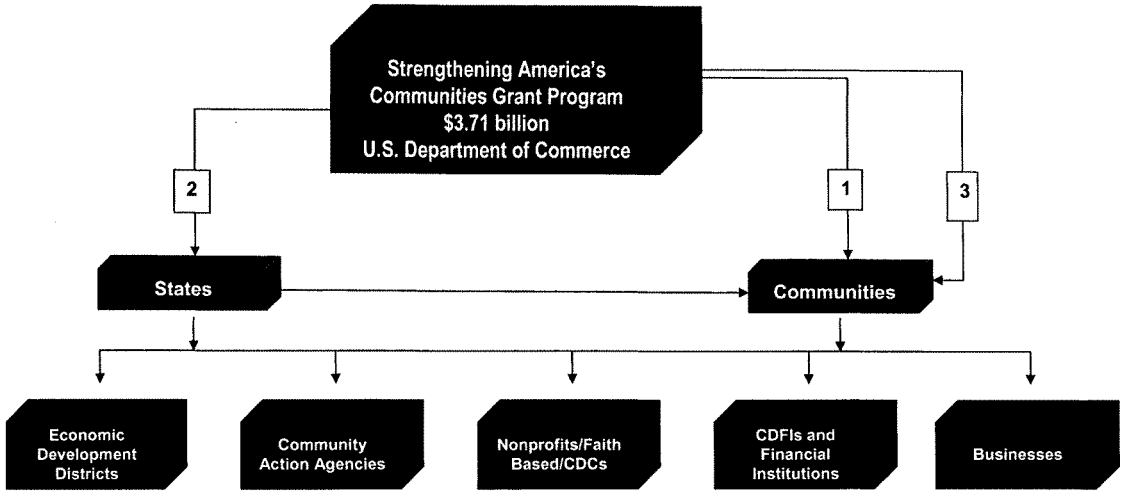
Thank you.

The Current Economic and Community Development System is Fragmented



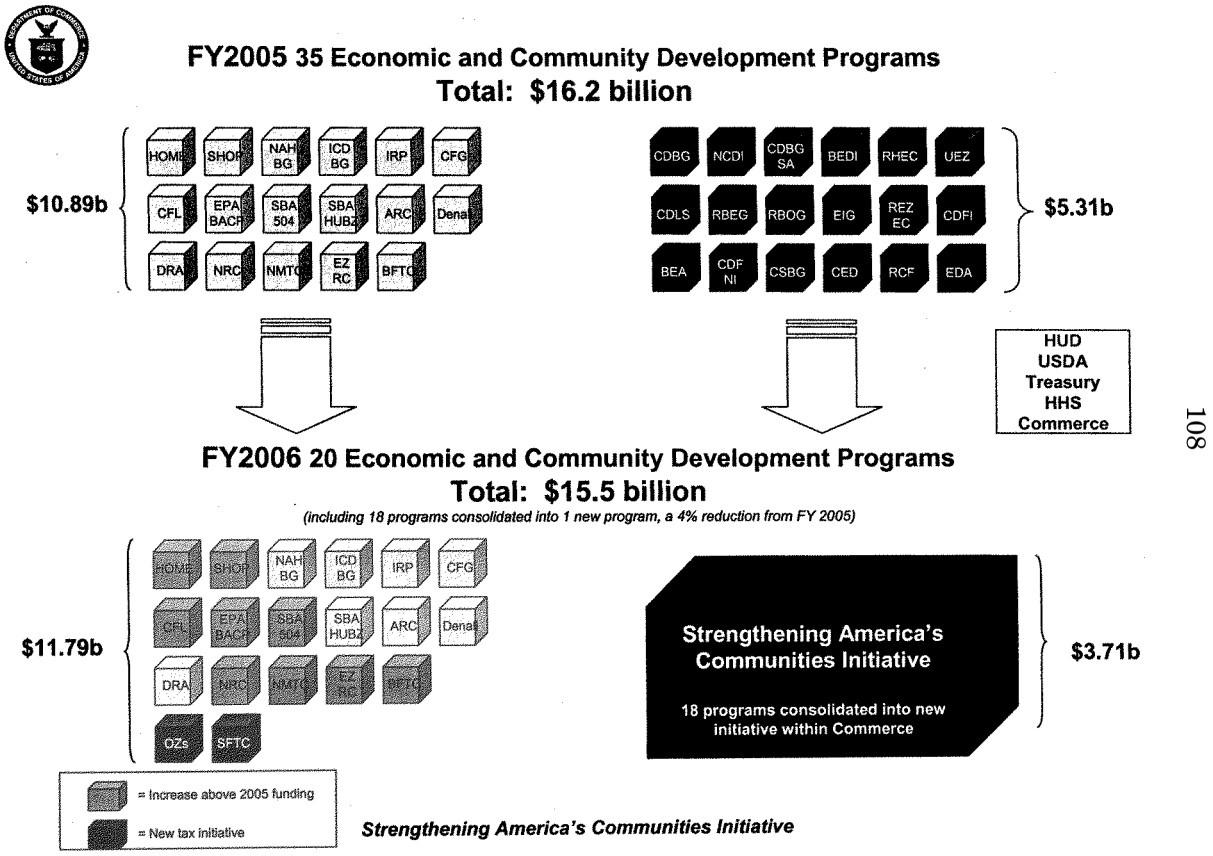
Strengthening America's Communities Initiative

Strengthening America's Communities Initiative Would Streamline Federal Economic Development Assistance



Funding will flow in three ways:
1. Directly to the community level to fund economic activities
2. To states, who will in turn distribute funding to communities
3. As bonus or incentive funding to a certain number of communities that are "development-ready"

Strengthening America's Communities Initiative


FY2005 35 Economic and Community Development Programs
Total: $16.2 billion
$10.89b
HOME
SHOP
NAH BG
ICD BG
IRP
CFG
CFL
EPA BACF
SBA 504
SBA HUBZ
ARC
Denali
DRA
NRC
NMTC
EZ RC
BFTC
CDBG
NCDI
CDBG SA
BEDI
RHEC
UEZ
CDLS
RBEG
RBOG
EIG
REZ EC
CDFI
BEA
CDF NI
CSBG
CED
RCF
EDA
$5.31b
HUD
USDA
Treasury
HHS
Commerce
FY2006 20 Economic and Community Development Programs
Total: $15.5 billion
(including 18 programs consolidated into 1 new program, a 4% reduction from FY 2005)
$11.79b
HOME
SHOP
NAH BG
ICD BG
IRP
CFG
CFL
EPA BACF
SBA 504
SBA HUBZ
ARC
Denali
DRA
NRC
NMTC
EZ RC
BFTC
OZs
SFTC
Strengthening America's Communities Initiative
18 programs consolidated into new initiative within Commerce
$3.71b
= Increase above 2005 funding
= New tax initiative
Strengthening America's Communities Initiative

b-1670

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20230

MAY 2 2005

The Honorable Bill Shuster
United States House of Representatives
Washington, D.C. 20515

Dear Representative Shuster:

Thank you for the opportunity to testify before the Committee on Transportation and Infrastructure's Subcommittee on Economic Development, Public Buildings and Emergency Management regarding the President's Strengthening America's Communities initiative.

The President's initiative is a bold $3.71 billion effort to simplify access to federal resources and make better use of taxpayer dollars by reforming, restructuring and consolidating eighteen existing federal community and economic development programs into a single new entity within the Department of Commerce. The initiative will set eligibility criteria that target those communities most in need and will establish strong accountability standards in exchange for the flexible use of funds at the local level.

I am pleased to enclose written responses to the Subcommittee's additional questions for the record. I appreciate your interest in the initiative and your commitment to America's economically distressed communities. As we strive to achieve similar goals, I believe the President's initiative affords us a great opportunity to work together to advance a modern, flexible and effective federal program to assist these very communities.

We look forward to working collaboratively with you to develop a better and more responsive federal community and economic development grant program. If you have any questions, please call me or Alicia W. Davis, Deputy Assistant Secretary for External Affairs and Communications, at (202) 482-5081.

Sincerely,

David A. Sampson
Assistant Secretary
for Economic Development

Enclosure

Questions for the Record
Transportation and Infrastructure Committee
Subcommittee on Economic Development, Public Buildings and Emergency Management
March 17, 2005
Strengthening America's Communities Initiative

Questions submitted by Chairman Shuster:

1. How many jobs were created or retained by EDA's programs as compared to CDBG?

In FY2004, the Commerce Department's Economic Development Administration (EDA) utilized $323 million in program funds that grantees report will lead to the creation or retention of 160,000 jobs and will leverage $10.4 billion in private sector investment. Additionally, EDA reports actual job creation or retention 3, 6 and 9 years after grant award but discounts the results reported by grantees by 25%. In FY 2004, EDA reported 90,010 actual jobs created or retained (after discounting) from projects funded with FY 1998 (6 year reports) and 2001 funding (3 year reports). Grantees reported a total of 112,512 jobs. EDA did not have jobs data for projects awarded in 1995, and so could not include 9 year results.

Based on Housing and Urban Development (HUD) Deputy Secretary Roy Bernardi's testimony before the House Government Reform Committee on March 1, 2005, CDBG's economic development activities, which were funded at a level of $434 million in 2004, led to the creation or retention of 78,000 jobs.

2. Why did the Administration propose to abolish EDA and create a new program rather than fold these activities into what you are already doing?

EDA does not provide formula grants directly to communities and states based upon relative need. Instead, it provides discretionary grants to eligible recipients to fund individual projects on a case-by-case, competitive basis, based upon funding priorities and policy guidelines established at the national level. The President believes that determinations of community priorities are best made at the local and state levels. The proposed initiative will empower local and state governments to make such determinations with great flexibility in the use of funds, in exchange for an expectation of achieving results.

The Administration's Strengthening America's Communities (SAC) proposal is a significant streamlining and improvement in how the Federal Government delivers community and economic development assistance. The grant authorities that currently exist in the 18 programs to be consolidated into SAC will largely be present in the new unified program. As such, the Administration believes that this significant new approach calls for a new entity, not simply modifying one of the 18 existing programs.

3. What is your view of the role of planning in economic development? Will there be a consistent stream of funding for planning for all communities in the new program? Why not?

Planning is a critical element of community and economic development efforts and will be an eligible activity within the proposed program. While the proposed initiative does not contemplate a separate stream of funding specifically for planning purposes, the Administration believes that a development strategy designed to achieve long-term, increased and sustained economic opportunity and competitiveness is vital to community's economic success and vitality. Thus, planning would be an eligible activity within the proposed program. Part of the proposed program's inherent flexibility will include support for states and communities to initiate and undertake area appropriate planning efforts.

4. What is your view of the role of infrastructure in economic development?

Infrastructure is a crucial component for building community viability and enhancing economic opportunity. One of the greatest challenges for the nation's most distressed communities is that their infrastructure is outdated. The infrastructure in place is inadequate to support the modern private capital investment needed to achieve or regain prosperity and create more and better jobs.

We envision that the President's proposal will actually increase the flexibility for the use of grant funds for infrastructure. For example, many of these programs currently have a number of restrictions on the use of those funds for roadways and other components that could support the creation of industrial parks and business parks.

5. What types of activities will be allowed as eligible uses under the new program?

The President's proposal will create an extremely flexible program. While some of the existing programs allow for a somewhat flexible use of funds, many of the 18 programs are limited to very specific purposes such as developing financial institutions, redeveloping brownfields, or addressing rural or urban locales. The new program would broaden flexibility to include the full range of activities currently available under the consolidated grant programs so that a community can undertake comprehensive efforts to achieve lasting results.

6. Should most or all of this money go exclusively to distressed communities?

The President believes that federal community and economic development grant money should be targeted to the communities that need it most, and the program should achieve results. Under existing programs, many affluent communities receive a disproportionately large share of funds, limiting the amount of resources available to the most-distressed communities. For example, the Community Development Block Grant (CDBG) program at the Department of Housing and Urban Development was created to serve distressed communities, but 38% of the funds currently go to communities and States with less poverty than the national average.

a. Will your legislation include a definition of distress and will that definition incorporate cost-of-living as a factor?

The legislative proposal will include a definition of distress. We are looking at several options for defining eligibility and expect to work closely with the Congress and the Advisory Committee on the criteria of the definition.

7. Does the Administration's proposal envision a dedicated stream of funding for urban areas that are receiving CDBG funds now?

Generally speaking, we expect that many communities that currently receive money from CDBG will remain eligible, with the exception of the very wealthiest of communities. We anticipate that some will actually receive more funding as money is targeted to those communities that need it most. We also anticipate that by targeting the money to the most-distressed communities, more rural areas will become eligible recipients than under existing programs.

8. Will non-profit entities be eligible to receive funds under this program? If so, what sorts of non-profits do you envision receiving funds?

We anticipate that non-profit entities will be eligible to receive funding under this program as sub-grantees to state and local community recipients.

Decisions regarding appropriate non-profit recipients would be made at the state and local levels, but might include organizations such as Community Action Agencies, Community Development Corporations, and faith-based and community organizations, among others.

9. Is EDA still preparing to accept '06 grant requests?

EDA is currently in full operation. EDA has a very efficient and effective grant-making process, and has currently processed nearly 60 percent of the Bureau's fiscal year 2005 program dollars. No specific actions are required for EDA to be able to accept grant requests.

a. How much time do you need to return to full operation in order to receive '06 grant requests?

There has been no change in EDA's operational status.

b. What is the status of the required rulemaking procedures from the EDA Reauthorization bill this Committee passed last year?

EDA is diligently working on these rules and hopes to have them completed soon.

c. Since the beginning of the fiscal year, how many EDA employees have accepted buyouts? How many employees do you currently have? How many of these are political and how many are career?

No employees have accepted buyouts in FY 2005, because the Bureau has not yet offered them. We anticipate offering buyouts in the near future, once management and the unions have bargained over impact and implementation.

EDA currently has 197 full time career staff and 9 political staff members.

10. We have heard many times about how EDA grants are used in conjunction with other grants, including CDBG to complete projects. To what extent did this reality impact the decision to consolidate these grant programs?

The fact that many small towns, with limited budgets, must hire a federal grant writer to go to multiple federal agencies and then hire lawyers to comply with separate regulations on bidding and compliance, weighed heavily in favor of this proposal.

From a macro point of view, the federal government will be most effective and have a more meaningful role assisting communities if it has a single, strong, community and economic development program, rather than 18 scattered and fragmented programs with inconsistent or redundant requirements.

Questions submitted by Ranking Member Norton:

1. The President's plan to consolidate various economic development programs is, at least, partially driven by a rating these various programs received from the PART review (Program Assessment Rating Tool) administered by OMB.

a. Please explain how this rating system worked.

The Program Assessment Rating Tool was developed by OMB to assess and improve program performance so that the Federal government can achieve better results. A PART review helps identify a program's strengths and weaknesses to inform funding and management decisions aimed at making a program more effective, and looks at all factors that affect and reflect program performance including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results.

b. What department inside OMB conducted the reviews?

EDA, through the Department of Commerce, submitted its PART input, and held subsequent discussions with OMB's budget examiners. The information received from EDA, and the assessment made by the OMB examiners was then reviewed by a panel of higher level staff within OMB.

c. As it relates to EDA, what were the program elements that were rated?

For EDA, all Economic Development Assistance programs were rated.

d. What were the categories of ratings?

Programs are rated in the following categories: Program Purpose and Design, Strategic Planning, Program Management and Program Results. The final, consolidated rating is classified as one of the following: effective, moderately effective, adequate, ineffective, results not demonstrated.

e. Did EDA participate in the rating process?

EDA was rated under the PART three times, and each time it participated in the rating process. EDA provided its input and justification to every question in every category. EDA had extensive discussions with OMB regarding their assessment and rating on individual items, and often provided additional information.

f. Did you comment on the rating process and EDA's final evaluation?

As stated previously, EDA's PART process included comment and the provision of additional information.

g. Was there an appeals process?

Yes, there is an appeals process.

h. Did you appeal your rating?

EDA collaborated on the PART assessment of its EDAP programs and the PART rating reflects agreement on the answers, justification and supporting evidence for each subsection of the PART assessment.

2. Dr. Sampson – 6 months ago you worked with this committee to reauthorized EDA. You testified to the importance of EDA and its success in assisting distressed communities. Now, barely 6 months later you are advocating a complete change in direction. Please explain why the Congress should now reverse direction and eliminate a proven, highly successful program?

The President sent a bill to reauthorize EDA to Congress in May 2003. The Strengthening America's Communities Initiative will be sent to the Congress roughly two years later and will reflect a growing body of research on how to create economic opportunities in the 21st Century economy. It also reflects the results of the OMB reviews of the 18 direct grant programs over the past year. This is not a reverse of direction, rather it is an effort to further improve the federal delivery of assistance for economic and community development.

9. The Administration indicated that there is a problem in which some communities that no longer need assistance continue to receive funding. Has that been your experience at EDA? Cite examples.

Targeting areas of the greatest need is the wisest use of scarce resources. In times of difficult budget choices, the federal government must target its dollars to those that need it the most and can deliver results.

10. Dr. Sampson, as you are aware, one of the hallmarks of the EDA program is its extraordinary success, through the district bonus program, in promoting regional cooperation and planning using the economic development districts. With only $18 million annually EDA has been able to build effective, regional, economic development cooperation and expertise. They have been very successful in leveraging private sector resources for underserved and distress communities. The President's proposal eliminates federal assistance for economic development planning and capacity building. By eliminating incentives for regional cooperation it appears communities will again be pitted against each other for scarce federal dollars. Please comment.

Effective planning is critical to determining a distressed community's strategic needs and is a prerequisite to growth and community development. Federal dollars are too scarce to allow their expenditure without a well-considered strategy of problem identification, specific targets and overall goals.

The President's Strengthening America's Communities Initiative enhances regional cooperation by providing a more targeted and flexible source of federal funding to help address common regional issues.

The most important factor to regional cooperation with EDA has been its strong focus on investments that have a regional outlook. EDA's investment policy guidelines and funding priorities emphasize diversifying the local and regional economy and give priority to proposals that enhance regional competitiveness and support long-term development of the regional economy. That has led communities to work together for their shared benefit and access to important funding.

11. Dr. Sampson – I am particularly distressed that the administration's Initiative does not fund, nor does it contemplate funding, planning grants for the national network of 320 economic development districts. As you know from your personal experience at EDA, these grants are especially essential in small towns and rural America, entities that lack the organizational and institutional capacity to develop, let alone, implement a professional quality economic development plan. What is the Administrations' plan for planning grants? What do you see as the role of planning grants in this new Initiative?

We anticipate that planning would be an eligible activity under the formula grant program, and the proposal would also contemplate a robust technical assistance component to assist communities, including small towns and rural America.

12. Dr. Sampson – I must confess I'm a little shocked at the Administration's characterization of the economic development organizations as one of merely "grant writers" – as you most assuredly know they do much more than write grants – they are instrumental in putting together complex financial packages for projects, and help see the projects through from planning to full implementation. Please comment.

The goal of this Initiative is to lessen the need for economically distressed communities to spend scarce resources on trying to navigate a myriad of federal programs and comply with different rules. Rather than seeking funding from 18 different programs, the proposal would provide communities the ease of contacting a single source to access grant dollars. They would then only have to comply with one set of regulations, and the need for coordinate multiple grants from different agencies to finance a project would disappear.

Economic development organizations will still be eligible to receive money as sub-grantees under the Strengthening America's Communities Initiative. Since planning is such a crucial element for community and economic development, the program anticipates their continued and active involvement in the communities the planning organizations serve.

13. Please explain the accountability measures used for EDA grants. How does EDA measure its impact on economic development?

EDA has the following performance goals, each with a set of measurements, reported in the Department of Commerce Annual Accountability Report.

1. EDA Performance Goal 1: Promote private enterprise and job creation in economically distressed communities.
   a. Private sector dollars invested in distressed communities as a result of EDA investments.
   b. Jobs created or retained in distressed communities as a result of EDA investments.
   c. State and local dollars committed per EDA dollar.
   d. Percentage of investments to areas of highest distress.
   e. Percentage of EDA dollars invested in technology-related projects in distressed areas.

2. EDA Performance Goal 2: Build community capacity to achieve and sustain economic growth.
   a. Percentage of sub-state jurisdiction members actively participating in the Economic Development Districts (EDD) program.
   b. Percentage of EDDs and Indian Tribes implementing economic development initiatives from the Comprehensive Economic Development Strategy (CEDS) process that lead to private investment and jobs.
   c. Percentage of University Center (UC) clients taking action as a result of the assistance facilitated by UC.
   d. Percentage of those actions taken by UC clients that achieved expected results.
   e. Percentage of Trade Adjustment Assistance Center (TAAC) clients taking action as a result of the assistance facilitated by the TAAC.

f. Percentage of those actions taken by TAAC clients that achieved the expected results.
g. Percentage of local technical assistance and economic adjustment strategy investments awarded in areas of highest distress.

14. On the issue of accountability: The President's proposal indicates that funds will be distributed in three ways – 1. Directly to communities, 2. To states which will in turn distribute funds, and 3. As part of the challenge funds. How does the administration expect to address the issue of accountability in each of these funding methods, especially handing federal tax dollars to private businesses?

The Strengthening America's Communities Initiative would not grant federal tax dollars directly to private business. The money will flow to eligible communities and states. The Administration will seek advice from the Advisory Committee and will work closely with Congress to define exactly how accountability will be established under each of the funding streams.

15. What percentage of the $3.7 billion will be set-aside for the Challenge Fund?

It is anticipated that the vast majority of funds under the Strengthening America's Communities Initiative will flow through the block grants to states and communities. While we have not determined the final percentage, we look forward to working with Congress to make these decisions.

16. One of the criteria that will be used to determine if a community has taken steps to attract businesses is that they have reduced regulatory barriers to business creation and housing development. What barriers are contemplated?

The final details of which barriers are contemplated have not been finalized. Generally, we hope that items such as reduction in paperwork hours, speed in final decisions from relevant local boards, and efforts to expand a local tax base are considered to create a positive economic environment so that new businesses and homes can be built to serve the communities' needs.

SAP&DC

SOUTHERN ALLEGHENIES PLANNING & DEVELOPMENT COMMISSION

541-58th Street
Phone: 814-949-6513
FAX: 814-949-6505
E-mail: sapdc@sapdc.org

WRITTEN STATEMENT FOR THE RECORD

Edward M. Silvetti, Executive Director
Southern Alleghenies Planning & Development Commission

BEFORE THE

HOUSE TRANSPORATION AND INFRASTRUCTURE SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS AND EMERGENCY MANAGEMENT

WASHINGTON, DC

MARCH 17, 2005

Good Afternoon

I would first like to thank Chairman Shuster and members of the sub-committee for your kind invitation to testify today on behalf of federally-supported local economic development efforts in a sub-state region of Pennsylvania that is predominantly rural and one that has benefited immensely from a number of community and economic development programs promulgated by the Congress. I would particularly like to acknowledge Chairman Shuster in whose 9th Congressional District of Pennsylvania I live, and, along with a portion of the 12th Congressional District, comprises the region on behalf of which my organization's efforts are directed.

My name is Edward Silvetti and I am presently, and have been for the last 12 years, the Executive Director of the Southern Alleghenies Planning & Development Commission headquartered in Altoona, Pennsylvania. Altoona is one of our two principal cities, the other one being Johnstown. As well, our development district, or regional council, serves six counties in southcentral Pennsylvania, those being Blair, Bedford, Cambria, Fulton, Huntingdon and Somerset. As a public non-profit development agency, the Southern Alleghenies Commission has served the community and economic development interests of the region's nearly 470,000 citizens since 1967. Additionally, and in recent past years, I have served as President of Pennsylvania's association of development districts/regional councils, as well as President of the Development District Association of Appalachia, this latter organization comprised of the 72 Local Development Districts designated through the Appalachian Regional Commission. This has given a perspective to me well beyond where I live and work.

While I do understand that I have some latitude with respect to my testimony today, my testimony will attempt to illustrate community and economic development necessities, and more specifically, how the President's *Strengthening America's Communities* initiative may impact this. I would like to focus, if I may, on how economic development plays out in rural Pennsylvania and, indeed, how it plays out in a similar fashion across this country. My intent is not to discourage consideration of alternatives such as the President proposes, but to try to demonstrate in some small way the importance of the Economic Development Administration and other programs in meeting the need for economic stimulation and job creation.

For the record, Southern Alleghenies Planning & Development Commission is a designated Economic Development District under the Public Works and Economic Development Act. This being said, Southern Alleghenies Commission does receive a small planning grant annually from the Economic Development Administration in the amount of $52,000. As well, we administer a number of revolving loan funds, one of which is capitalized through the EDA.

From my professional vantage point, the necessity for public infrastructure and the identification of infrastructure as lacking in this country has "waxed and waned" in cyclical fashion for as long as I can remember. It was not that long ago, perhaps ten years, there was a raging public debate on how public infrastructure was deteriorating in this country and how this would ultimately affect our economy. I am here today to tell you that inadequate public

infrastructure and deteriorated infrastructure has never been off the agenda for Southern Alleghenies Planning and Development Commission.

Lack of infrastructure has, and continues to be, a singular "road block" to economic development in our region and puts us at a distinct disadvantage to more urban regions. A lack of broadband, water service, sewerage service, and highway access to business and industrial sites pre-empts our ability to respond immediately to major economic opportunities presented by larger businesses and manufacturers. What remains for those of us in rural Pennsylvania is, oftentimes, competing for lower-tech, lower-paying jobs.

I would like to state for the record that it is the belief of our Board of Directors, comprised of local elected officials from our six counties, that the Economic Development Administration has been the singular federal program that has helped to support the establishment of business parks, industrial sites, and attendant infrastructure that has, in turn, supported a huge portion of economic growth and resulting new jobs in our small corner of this country.

Even within our six county region we have been forced to make decisions, prudent as they may be, in recommending projects for EDA consideration. Not surprisingly, many of these investments have gone in our more urban counties, but our organization's proudest moments have been when we have brokered federal investments in our most rural counties in response to economic opportunity, to see jobs created in areas where, without public investment, no jobs would have been created at all.

I wish that members of this Sub-committee had had the opportunity to attend the ground breaking and ribbon cutting for the Fulton County Business Park. Fulton County has a population of roughly 15,000 people. This business park has already supported expansion of several manufacturers and, with its recent "tax-free" designation, holds the promise of creating many more jobs on site. Without EDA's investment this project simply would not have happened.

I would be remiss if I did not describe the Southern Alleghenies Planning & Development Commission organization and highlight the many activities and programs that we deliver on behalf of our citizens. I do this to demonstrate how mulit-county, substate regional councils can serve to effectively and efficiently deliver services.

As I have stated, our organization was incorporated in 1967 by a number of political and business leaders in our region who foresaw the necessity to plan and deliver economic and community development services on a broader geographic and political basis then at the sub-county, municipal or even county level. We are, among other things, an Economic Development District designated under the Public Works and Economic Development Act, a Local Development District through the Appalachian Regional Commission. We administer federal workforce development funds under the Workforce Investment Act on behalf of a regional Workforce Investment Board. We deliver small business lending services under both federal and Commonwealth of Pennsylvania designations. We serve to assist small companies in our region to export their products to foreign markets. Southern Alleghenies Commission is also a

Procurement Technical Assistance Center under contract with the Department of Defense helping our businesses to "do business" with the state and federal governments.. And for the past 15 years Southern Alleghenies Commission has acted as the Rural Planning Organization under contract with the Pennsylvania Department of Transportation, funded in part through federal transportation legislation.

I could go through the many individual programs that we administer on behalf of our constituent counties and businesses, but that is not why I am her today. Suffice it to say, that for well over 35 years the Southern Alleghenies Planning and Development Commission has been working hard to help make our region a better place in which to live, work and do business. We have a solid reputation for outstanding performance and are committed to continue promoting progress through regional cooperation. Southern Alleghenies Commission provides administrative, professional and technical assistance that simply is not available within individual municipalities. Many of our business services, such as assisting our companies to secure contracts with federal and state agencies or helping our companies to export their products are services that require expertise not available in most small and medium-sized businesses and manufacturers that largely comprise rural economies. We help our communities and we help our businesses to compete in an economy that stretches far beyond the small area of Southern Alleghenies Pennsylvania. Federal programming, particularly those like the EDA, support these efforts.

Insofar as the federal role for community and economic development, some would say the federal government has no role. I disagree. We live in a global economy, and without federal support to promote business growth where would that leave small and medium sized businesses which could never manage individually.

With respect to many of the individual programs that would be combined under this Administration's *Strengthening America's Communities* initiative, we work indirectly and directly with these, but the EDA is viewed as the only real choice for supporting economic development in our rural region. USDA programs and the Community Development Block Grant have supported local economic development efforts, but the Economic Development Administration is and has been the program of choice to support meaningful economic development expansion. The Economic Development Administration just in the past 10 years has made well over a dozen investments in "bricks and mortar" infrastructure projects in the Southern Alleghenies region, and this does not include technical assistance studies which the Economic Development Administration has partially funded to determine whether it should make or whether a local sponsor should continue to pursue development of specific projects.

What has EDA received for its money? What benefit has the Congress derived from the money it appropriated? A project in 2001 in southern Blair County resulted in a $45 million investment by a regional corporation. Another EDA investment of less than a million dollars resulted in the establishment of a major electronics component manufacturer that includes significant international sales. In 1999 EDA made a $634,000 investment in an industrial park in northern Cambria County. An announcement was made within the past month that a foreign manufacturer would establish a facility there in support of wind energy with an investment of $42 million. It just does not get any better than that.

I can tell you that none of the two major investments which I just mentioned would have occurred without EDA's investment of less than $3 million. Those investments and major corporations would have gone to areas where the unemployment rate was below the national average, but with EDA's help those corporate investments went or will go to an area with an unemployment rate well above the national average.

Members of the Sub-committee, I have been working in the field of economic development since 1976 and have witnessed transitions that the Economic Development Administration has gone through. I have seen the EDA at an appropriations high and see it now at an appropriation low. And, while change is inevitable and changing economic and budgetary considerations have dictated and resulted in significantly less financial assistance, the need of support for public economic development infrastructure continues to grow.

As an Economic Development District, Southern Alleghenies Commission has the term "planning" incorporated into its name; we do planning. The $52,000 that we receive annually in administrative support may seem minor, but its flexibility is vitally important.

The EDA district planning grant goes to support our ongoing efforts in assessing and reassessing our region through the Comprehensive Economic Development Strategy or CEDS process. I do believe this CEDS process is the best articulated planning process the EDA has managed to provide. It provides more than a snapshot; it provides a method to continually assess the region's ever-changing economic vitality and serves as a means to recommend projects for public investment, just not from the EDA, but from other federal, state and local sources as well.

On that point of recommending projects, this is a point that I try to make to whomever I am speaking. It points to one of the core strengths that I believe our organization, and other regional councils, bring to the process of economic development. Federal resources are scarce, as are our state resources, and local government can afford only so much, as well. Somebody has to serve the purpose of evaluating projects on a cost benefit basis, measuring those projects against a plan and recommending projects that are worthwhile, that will have impact and serve the greater economic development and community development good. That is what we do. We manage the sifting process.

Southern Alleghenies Commission maintains a number of advisory committees made up of business leaders, bankers, industrialists, local government representatives, other agency representatives. As committees, and through the CEDS planning process, we are continually identifying projects, determining their relative cost benefit, placing them in priority order, having our board of local elected officials from six distinct county governments making recommendations, and then advising agencies like the Economic Development Administration that the resulting projects make a good investment sense and that jobs and capital investment will result. That is about as succinctly as I can define organizations like Southern Alleghenies Commission.

As a regional council I believe we do a pretty good job in brokering projects, getting one county or one city to recognize that perhaps their project is not quite ready and that they need to support a project in a neighboring county.

Regional cooperation cannot get any better than that.

Take away the Economic Development Administration and our Board of Directors will agree unanimously that the federal role in helping distressed communities has been greatly curtailed to the detriment of rural areas.

Chairman Shuster, and members of the Sub-committee, thank you again for this time to speak.

American Planning Association

American Public Works Association

Association for Enterprise Opportunity

Center for Rural Affairs

Coalition of Community Development Financial Institutions

US Conference of Mayors

Council of State Community Development Agencies

Local Initiatives Support Corporation

National Association of Counties

National Association of Development Organizations

National Association of Regional Councils

National Association of RC&D Councils

National Association of Local Housing Finance Agencies

National Community Capital Association

National Community Development Association

National Farmers Union

National Low Income Housing Coalition

National Rural Funders Collaborative

National Rural Housing Coalition

Northeast-Midwest Institute

Rural Community Advancement Program

The Enterprise Foundation

March 15, 2005

The Honorable J. Dennis Hastert
Office of the Speaker of the
House of Representatives
H-232 Capitol Building
Washington, DC 20515

The Honorable Nancy Pelosi
Office of the House Minority Leader
H-204 Capitol Building
Washington, DC 20515

Dear Speaker Hastert and Minority Leader Pelosi:

As a diverse coalition of organizations representing the nation's community and economic development practitioners, elected officials and constituency groups, we are writing to express our overwhelming opposition to the Administration's proposal to eliminate 18 federal community and economic development programs and reduce federal grant assistance for distressed and underserved local communities by $2 billion each year. We strongly urge you to restore these vital resources as part of the FY2006 congressional budget resolution.

At a time when nearly every American business and community is confronting intense competition from emerging and developing nations, the federal government should be expanding its resources and assistance for local community and economic development. Instead, the Administration is recommending a 34 percent funding cut and more unfunded mandates for our nation's state and local governments. The President's plan would also significantly diminish and eviscerate the federal role in community development projects such as providing first-time access to clean and drinkable water, affordable housing and community facilities for our nation's poorer areas and citizens.

From our perspective as the constituencies at the frontlines of community and economic development, we feel strongly that the current federal investment of $5.7 billion each year is a solid, wise and effective investment in our nation's local communities. While we understand and recognize the current federal budget climate, we must point out that the proposed funding cut represents less than one-half of a percent of last year's federal deficit. More importantly, the $2 billion reduction in federal investments will result in the loss of at least $18 billion in matching and leveraging investments by the private sector and other governmental and nonprofit programs at the state and local level.

Our nation's distressed regions, communities and neighborhoods need national leadership, models of innovation and matching funds for locally-led projects and initiatives. Instead, we fear the Administration's proposal will result in more communities marking time in the land of lost opportunity.

RCS# 6460
2/07/05
3:23 PM

Atlanta City Council

Regular Session

05-R-0213 EXPRESSING CITY'S OPPOSITION PRES BUSH'S PROPOSED CDBG CUTS 50% UPCOMING FY 2006 ADOPT ON SUB

YEAS:	15
NAYS:	0
ABSTENTIONS:	0
NOT VOTING:	1
EXCUSED:	0
ABSENT	0

Y Smith	Y Archibong	Y Moore	Y Mitchell
Y Starnes	Y Fauver	Y Martin	Y Norwood
Y Young	Y Shook	Y Maddox	Y Willis
Y Winslow	Y Muller	Y Sheperd	NV Borders

ED

CITY OF ATLANTA
OFFICE OF MUNICIPAL CLERK

RHONDA DAUPHIN JOHNSON, CMC
MUNICIPAL CLERK

55 TRINITY AVENUE, S.W.
SECOND FLOOR, EAST
SUITE 2700
ATLANTA, GEORGIA 30335
(404) 330-6033
FAX (404) 658-6103

February 15, 2005

The Honorable James Oberstar
US House of Representatives
2365 Rayburn HOB
Washington, DC 20515-2308

Dear Congressman Oberstar:

The Atlanta City Council has unanimously adopted and Mayor Shirley Franklin has approved the following enclosed resolution expressing the City of Atlanta's opposition to President Bush's proposed cuts in CDBG Funds within the 2006 Federal Fiscal Year Budget.

- **Resolution 05-R-0213 by Councilmembers Natalyn Archibong, Anne Fauver, Jim Maddox, Clarence T. Martin, Ceasar Mitchell, Felicia A. Moore, Clair Muller, Mary Norwood, Joyce Sheperd, Howard Shook, Carla Smith, Debi Starnes, H. Lamar Willis, Cleta Winslow and Ivory Lee Young, Jr., expressing the City of Atlanta's opposition to President Bush's proposed cuts in Community Development Block Grant (CDBG) Funds in the upcoming FY 2006 Budget; and for other purposes**

  Adopted by the Atlanta City Council, February 7, 2005
  Approved by Mayor Shirley Franklin, February 14, 2005

It is respectfully requested that you review Resolution 05-R-0213 and give the utmost positive consideration to the City of Atlanta's position on this issue.

Respectfully,

Rhonda Dauphin Johnson

Rhonda Dauphin Johnson
Atlanta Municipal Clerk

Enclosure

Cc: Mayor Shirley Franklin
Council President Lisa Borders
All Members of Council
Inter-Governmental Affairs Director Claire McLeveign

CITY COUNCIL
ATLANTA, GEORGIA

A SUBSTITUTE RESOLUTION
BY FULL COUNCIL

05-R-0213

A RESOLUTION EXPRESSING THE CITY OF ATLANTA'S OPPOSITION TO PRESIDENT BUSH'S PROPOSED CUTS IN COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) FUNDS IN THE UPCOMING FY2006 BUDGET; AND FOR OTHER PURPOSES.

WHEREAS, cities and counties across the State of Georgia annually receive approximately $100 millions in Community Development Block Grant (CDBG) funds from the U.S. Department of Housing and Urban Development (HUD); and

WHEREAS, the City of Atlanta's share of CDBG funds for fiscal year 2005 is currently estimated at $10,681,000.00, a reduction of 5% from the previous year; and

WHEREAS, there has already been a steady reduction over the last five years as reflected in the reduction of 12% in the current city CDBG allocations from FY2000 level of $12,072,000.00; and

WHEREAS, President Bush's proposed FY2006 Budget – scheduled for release on February 7, 2005, will contain cuts in Community Development Block Grants; and

WHEREAS, these cuts will have a very negative impact on a variety of housing and community/economic development needs of the City of Atlanta; and

WHEREAS, Community Development Block Grant (CDBG) funds are one of the few remaining federal programs available to assist local governments address issues and problems such as slums, blight, housing rehabilitation, affordable housing, community development and environmental infrastructure; and

WHEREAS, it is crucial for Atlanta city officials to join officials of other cities and counties across the country to express opposition to the drastic cuts in CDBG funds proposed by the Bush Administration; and

WHEREAS, Atlanta city officials and citizens are urged to contact their senators and representatives in Washington, DC, to express their concerns about, and opposition to, the proposed CDBG cuts.

NOW THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF ATLANTA, GEORGIA, as follows:

SECTION 1: The City of Atlanta hereby expresses its opposition to the proposed cuts in Community Development Block Grants in President Bush's FY2006 Budget – scheduled for release on February 7, 2005.

SECTION 2: **The City of Atlanta expresses its strong opposition to the Administration's proposal to consolidate 18 Community Development programs.**

SECTION 3: Atlanta city officials and citizens are hereby urged to contact their senators and representatives in Washington, DC, **and join the Georgia Municipal Association, the National League of Cities, the United States Conference of Mayors, and the National Association of Counties** in opposition to the proposed CDBG cuts.

SECTION 4: The Municipal Clerk of the City of Atlanta is hereby directed to send a copy of this resolution to President Bush, Vice President Cheney, and all members of the **Congress.**

SECTION 5: All resolutions and parts of resolutions in conflict herewith are hereby repealed for purposes of the resolution only, and only to the extent of the conflict.

A true copy,

Deputy Clerk

ADOPTED by the Council
APPROVED by the Mayor

February 7, 2005
February 14, 2005

Testimony for the Record

House Transportation and Infrastructure
Subcommittee on Economic Development, Public Buildings and
Emergency Management

March 17, 2005

Hearing on Strengthening America's Communities Initiative
and its Impact on EDA

National Association of Regional Councils
1666 Connecticut Ave., NW, Suite 300
Washington, DC 20009
(202) 986-1032

Robert Sokolowski
Executive Director

Mr. Chairman, Ranking Member Norton, distinguished members of the Panel. The National Association of Regional Councils (NARC) is pleased to provide testimony for the record as part of the hearing on the Administration's Strengthening America's Communities Initiative and its impact on economic development.

We are pleased to participate in this hearing as representative of regional councils of government, planning commissions and development district. Our association's membership reaches into each of your districts, except for one member of the panel whose district does not have regional councils.

In examining the Administration's Strengthening America's Communities Initiative, we have concerns about the apparent omission of any regional strategic planning process or vision to coordinate and sustain any economic development or community development program that may be contained in this initiative. We view this initiative as devoid of any collaborative approach to allow for the prioritization of projects, which can weaken long term economic growth and community revitalization.

During this hearing, you will hear much about how funding from the Economic Development Administration has revitalized communities across the country. In 1996, our association was part of a group headed by Rutgers University that engaged in an evaluation of EDA's public works program. Researchers went to many small communities throughout the country to look at projects that had been in operation for up to five years. The study showed that EDA funding, even in relatively small amounts, was used to leverage millions of private sector dollars and resulted in projects that improved the economic vitality of these small, and sometime remote, communities.

We want to focus our comments today on the importance of planning as the tool that lays the groundwork for economic revitalization.

The Importance of Planning

All regional councils and MPOs have planning as a basic function, whether it is a Certified Economic Development Strategy, a housing strategy, elderly services, workforce development, long-range transportation plan, water quality and supply planning, homeland security or comprehensive planning for local governments. These planning functions require a coming together of all stakeholders to develop a strategy that responds to the need in question. Those stakeholders include economic development professionals, local elected officials, minority representatives, the business community and local emergency response personnel, among others.

NARC: Strengthening America's Communities, Page 2

Since its inception, the Economic Development Administration has recognized the importance of planning and over the years, has provided, in some form or another, a bonus to those grantees that participate in the regional planning process. It has been an effective and highly successful means of bringing local governments, the business community and others together to map out the economic future of the communities within a region.

The Certified Economic Development Strategy has benefits that go beyond what is traditionally thought of as "just planning." It is a document that has life and therefore, value, to the communities within a region. It is a document that is truly a roadmap to the future economic viability of the region, one that is flexible enough to accommodate change when needed.

A small rural community has little hope of successfully accomplishing economic development on its own, but as a part of a larger region and in concert with other local governments, more doors open to rural areas. The planning process is the first step. For many smaller communities, participation in the CEDS process represents their first exposure to strategic planning. It forces them to make decisions about the future and set manageable goals to improve economic conditions.

A Texas regional council executive said the CEDS process is the first exposure his local government members had to planning. A real value to the process was the fact that local officials, the business community, minority groups and other citizens were "forced" to sit around a table and discuss the future of their communities and make decisions about how to approach that future. Over the years, the process has become one of growing sophistication as these smaller rural governments become accustomed to mapping an economic strategy.

The Long View

Regional planning helps local agencies and governments look beyond their immediate concerns and realize the inter-relationship of economic development efforts. This enables regions to prioritize issues and focus funding where it will be most beneficial to the entire regional community. For example, the Southern Tier Central Regional Planning Board in Painted Post, New York, recently had competing requests for economic development projects. In the end, the region decided that the limited funding available should go to the City of Hornell Area Transit Cluster Project as the best regional priority. This project is the revitalization of a former rail yard brownfield area for new industrial development.

The CEDS process is more comprehensive than any other required plan for any federal or state program. For example, the CEDS must look at economic development and its relationship to other issues such as workforce development, housing, transportation, agriculture and telecommunications availability.

The CEDS becomes a living document that can be referred to by any business or industry looking to expand. It is also available for community input and as a result, brings diverse groups and individuals on board with a long range vision for the region as a whole.

A typical economic development district

The Coastal Georgia Regional Development Center in Brunswick serves 10 counties and 35 local governments. It is the fastest growing region in Georgia, even outstripping Atlanta. Coastal Georgia is a complex region, containing some of the state's most precious natural resources: water, history, culture, natural beauty and a very sensitive environment.

The region has four urban areas – Savannah, Statesboro, Hinesville and Brunswick. The remainder consists of very rural areas that are plagued with unemployment and low income. These small rural governments have limited staff and limited resources. The Economic Development Administration's planning grant to Coastal Georgia has made it possible for these local governments to work together through the regional council to develop future plans that provide for the protection of natural, historic, and cultural resources, as well as accommodate for a strong economic revitalization.

In addition to its traditional regional planning, Coastal Georgia, two regional councils in South Carolina and one in Florida have launched a multi-state economic development project called "Southern Passages." The project grew out of a strategic planning process and is an additional layer to the CEDS.

There are many other typical regional council efforts that have used their cache as an economic development district to bring communities together. The Green River Area Development District in Owensboro, Kentucky, serves an urban center, several small communities and surrounding open area. The region has one of the best records in the United States for getting local elected officials and others to think and act regionally. Local governments have gone together to pool resources to secure economic growth. Some local governments have invested funding in industrial parks in other counties in the region in exchange for jobs and for shared tax revenues.

Conclusion

Planning is critical in developing a long term vision for the revitalization of any community. The Economic Development Administration has recognized the benefits of planning by funding designated Economic Development Districts to support staff that works with stakeholders to develop the Certified Economic Development Strategy and to provide technical assistance is helping local governments develop the best types of projects.

Without a coordinated strategy, economic development will become haphazard and without any clear focus. We urge Congress to continue supporting regional strategic planning for economic development

About NARC

The national Association of Regional Councils, founded in 1965 by the National Association of Counties and the National League of Cities, became an independent organization in 1967 devoted to representing the interest of a growing number of regional councils of government, planning commissions and development districts, many of which were formed after the passage of the Public Works and Economic Development Act of 1965 and the Appalachian Development Act of 1965. Our membership of 250 regional councils and metropolitan planning organizations covers the gamut of regionalism, ranging in size from largest, the 17 million-population Southern California Association of Governments in Los Angeles, to the smallest, the 23,000 population Lamoille County Planning Commission in Morrisville, Vermont. NARC serves the interests of all regional councils – large and small, metropolitan and rural

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