

TOP TEN MYTHS & REALITIES: THE ADMINISTRATION'S STRENGTHENING AMERICA'S COMMUNITIES INITIATIVE

MYTH #1: The administration's plan is only merging 18 existing federal community and economic development programs into a new unified grant program within the US Department of Commerce. This will make it easier for communities to access federal grant funds and avoid duplication.

REALITY: The administration's plan calls for the outright elimination of the 18 existing programs. None of the agencies and programs, including HUD's Community Development Block Grant (CDBG) program and the US Economic Development Administration (EDA), would exist after fiscal year 2005. The administration requests only a modest sum of money for the transition of the programs and remaining oversight functions. The proposal would establish a new office and bureaucracy within the US Department of Commerce. In addition, the new program would focus almost exclusively on job creation initiatives and mandate unrealistic performance standards for distressed areas. It would severely weaken the federal role in pre-development and community readiness efforts that are vital to making these impoverished areas more attractive to private sector investors.

The new program just replicates the existing functions, programs and mission of EDA, with the addition of housing and homeownership activities to the agency's portfolio. EDA is already designated as the lead federal economic development agency. Most importantly, EDA has a proven and documented record of success and, over the years, the agency has developed the partnerships and program tools required to effectively serve the economic development needs of distressed regions and areas. This includes making resources available for regional strategic preparedness initiatives conducted by economic development districts, the creation of locally-controlled business development loan funds, and comprehensive responses to help communities recover from natural disasters, military base closings and other sudden and severe dislocations such as manufacturing plant closings.

Instead of reinventing the proven programs and mission of EDA and spending millions of dollars to establish a new bureaucracy and delivery system, Congress should simply fully fund EDA at the authorized level of \$450 million and work to improve the coordination, focus and performance of the other 17 community and economic development programs slated for elimination as part of the President's Strengthening America's Communities proposal.

MYTH #2: The administration's proposal only cuts federal grant assistance for community and economic development program by \$2 billion each year. This is an important step in helping reduce the federal deficit during this war time economy.

REALITY: The direct federal investment would be reduced by \$2 billion each year, a 34 percent cut from current spending on the 18 programs. The budgetary savings represent less than one-half of one percent of the projected federal deficit for fiscal year 2006. 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.

More importantly, the \$2 billion reduction in federal investments will result in the potential loss of at least \$18 billion each year in matching and leveraging investments by the private sector and other public and nonprofit agencies at the state and local level. This reflects the fact that federal investments are typically the glue or seed capital to make community and economic development projects a reality in distressed regions and areas that are overlooked or underserved by the private sector.

According to the March 17 testimony by Assistant Commerce Secretary David Sampson, "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." For the vast majority of these projects, the commitment of EDA was the initial or final incentive and catalyst to implementing these successful and important local projects.

The same holds true for programs such as HUD's Community Development Block Grant (CDBG) program. According to HUD, more than 78,000 jobs were created or retained by CDBG in FY2004. In addition, 159,703 households received housing assistance from CDBG - including 11,000 new homeowners, 19,000 rental housing units being rehabilitated and 112,000 owner occupied homes being rehabilitated. In FY2004, over 9 million people were served by new or reconstructed public facilities and infrastructure, including new or improved roads, fire stations, libraries, water and sewer systems, and centers for youth, seniors and persons with disabilities. In addition, more than 13 million persons received assistance from CDBG-funded public services in FY2004, including employment training, child care, assistance to battered and abused spouses, transportation services, crime awareness and other related services. *(Source: Local Official Groups testimony to House Government Reform Committee.)*

MYTH #3: According to Commerce Department documents, the administration's proposal is being justified by the OMB performance rating results of the existing 18 grant programs. They claim the existing programs are cumbersome, duplicative and unaccountable. Is this true?

REALITY: Absolutely not. The Office of Management and Budget (OMB) only reviewed and evaluated 50 percent, or nine of the 18 programs, slated for elimination. In addition, three of the programs, most notably the Economic Development Administration, received very high performance ratings. 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. In addition, the OMB process failed 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 activities.

As the lead federal economic development agency, EDA and its local partners have earned an exceptional and documented record of outstanding 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 fact was reinforced by the overwhelming bipartisan congressional and presidential support of final passage of the multi-year EDA reauthorization bills in 1998 and 2004. It is also reflected in the recent induction of EDA into the prestigious Balanced Scorecard Hall of Fame™, joining only three other distinguished federal agencies.

In evaluating the applicability of OMB's performance standards for HUD's CDBG program the National Academy of Public Administration (NAPA) concluded that the federal statutes for CDBG do not require grantees to target their programs geographically, meaning the lack of a targeting requirement cannot be a performance shortcoming as stated by OMB and that requiring funds to be geographically targeted actually runs counter to the programs focus on state and local flexibility. In addition, the NAPA review panel states the OMB PART assessment found a "lack of clarity in the program's purpose and design. The Panel disagrees with this assessment. CDBG, a highly flexible block grant, is intended as a source of funding to address needs of communities and states within a broad national framework. If the CDBG program lacks clarity, it is likely because the statute intended it so." The same applies to the other 17 programs slated for elimination, all of which are monitored, held accountable and funded each year by Congress. *(Note: The White House performance scorecard released in September 2004 gave OMB unsatisfactory ratings.)*

MYTH #4: The administration's Strengthening America's Communities block grant program would be a new program under the Economic Development Administration at Commerce?

REALITY: No. While the new program would be operated within the US Department of Commerce, the administration's proposal calls for the termination of EDA and the creation of a new bureaucracy and agency. However, the administration has tentative plans to use EDA's FY2006 budget for salaries and expenses to operate and run the new agency. In fact, the plan calls for the current EDA Assistant Secretary to serve as the new agency's leader until the President nominates, and the Senate confirms, a new agency head. The new agency would possibly use the existing EDA staff on a temporary basis to support the new agency.

MYTH #5: The administration's proposal would retain a comprehensive strategic planning process for regions and communities, which has proven to be an effective and efficient use of EDA resources over the years. Regional development organizations and economic development districts would still receive annual and on-going planning grants to foster regional collaborations, craft regional strategic action plans and, most importantly, provide essential organizational support to local governments, business leaders and nonprofit groups for project and program implementation efforts.

REALITY: The planning grant program for economic development districts, along with the rest of EDA, would be eliminated under the administration's reform proposal. According to administration officials, regional development organizations and economic development districts would be eligible only to compete for periodic funding under the state-portion of the block grant account. The decision on funding for regions would rest at the state level, not at the federal level.

The proposed planning requirements would be extremely difficult for regions and communities to address without full-time, professional staff such as those housed in regional development organizations – meanwhile the administration's plan would essentially shout out traditional planning organizations and local government officials while opening the door for consultants, business groups and universities to dominate the local planning process. The proven track record of regional development organizations and the EDA planning program would be replaced with a "corporate model" that is being pigeon-holed into a community framework.

The elimination of this essential regional preparedness program would result in our nation's distressed and underserved regions being faced with severe burdens and obstacles in their pursuit of economic prosperity and growth. As demonstrated in a thorough program evaluation by the Center for Urban Studies at Wayne State University, the national network of 320 multi-county regional 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 independent 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 by themselves 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 and resources to pursue professional strategic visioning and development activities.

The economic development districts use the planning program for more than just crafting 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 wealthier communities. By pooling their limited resources through the 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.

MYTH #6: The administration's proposal offers cutting-edge approaches to improving the economic and social conditions of our nation's distressed communities and regions.

REALITY: The administration's proposal reverses the modern and tested philosophy of providing federal incentives and resources to promote regional approaches, partnerships and organizational capacity building, along with local flexibility, control and accountability. Instead, the administration's plan would revert back to pitting local communities and neighborhoods against one other in an intense competition for dwindling federal resources.

A primary reason for the long-term success of the Economic Development Administration has been its incentive-based approach to regional planning and development. For example, local government and communities that actively participated in a multi-county economic development district were eligible for an additional 10 percent federal share in infrastructure and economic adjustment projects. Through the district planning program, EDA also provided modest matching funds to encourage and help distressed communities to pool their limited resources to establish a highly professional, locally governed and flexible regional community and economic development organization. This incentive-based model, which requires local matching funds and commitment, has proven to be a cost-effective and efficient way to build long-term, sustainable organizational and institutional capacity in traditionally impoverished regions. While these assets are taken for granted in wealthier areas, they were historically absent in distressed regions until the creation of the EDA district planning program.

MYTH #7: It is more important to help balance the federal budget and address other pressing federal priorities than to fund federal community and economic development programs for impoverished communities.

REALITY: Absolutely not. By building and upgrading our nation's community facilities and economic infrastructure, we are strengthening our local companies and industries. 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 declined since the society's last 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 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 and CDBG investments over the years, the role of basic public infrastructure is at the core of sustaining existing businesses, nurturing new companies and making communities more attract to private sector investors. 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.**

MYTH #8: The administration's focus on program accountability and performance standards is long overdue and will benefit our nation's impoverished areas. The current portfolio of 35 programs are unaccountable and lack a focus on program accountability.

REALITY: A primary role of the federal government in local community and economic development is to provide leadership, resources, best practices and technical assistance to local stakeholders. However, the role of the federal government is also to invest in projects, programs and organizations serving parts of the nation that are overlooked or perceived as too risky by the private sector and free market. By placing an overemphasis on the short-term gains and achievements of local grantees in distressed areas, the administration's proposal threatens to significantly alter the thinking of federal, state and local decision makers. Instead of pursuing and supporting initiatives that may take years to develop and demonstrate results, the new program would create a "risk adverse" culture by placing such a heavy emphasis on guaranteeing project and program success. In the private sector, we have all witnessed in recent years the devastating consequences of focusing too closely on the bottom line and short-term gains for stockholders and executive management.

As part of the congressional oversight and annual appropriations processes, each and every federal community and economic development program is subject to regular and continuous monitoring, review and evaluation. Before crafting and adopting a multi-year reauthorization bill for EDA, for example, the House and Senate authorization committees held a total of four hearings on the programs and goals of the agency in the 108th Congress. The members and staff of the House and Senate Appropriations Committees also meet regularly with representatives of all of the agencies to monitor their progress, approve reprogramming requests and provide feedback on projects and initiatives.

All federal grantees, including EDA grantees, are already required to comply with extensive federal report and performance requirements, ranging from overall performance standards, financial accountability rules and outreach to underserved populations. As outlined in the 1998 EDA reauthorization bill, all of the agency's economic development districts and university centers must undergo an extensive performance review every three years. In addition, grantees are subject to annual financial audits and OMB circular requirements for nonprofits and local governments. Most importantly, public organizations -- such as cities, counties and regional development organizations - - are held accountable directly by their governing boards, the general public and the local media.

The administration's core performance measures are selective and narrowly focused, and in many cases, unrelated to local community and economic development. Many of the factors are also beyond the control of traditional community and economic development grantees, whether it is reducing violent crime rates in an area, achieving federal education standards for high schools or increasing homeownership rates. In other words, the administration plans to hold grantees accountable for events and activities beyond their control.

The proposed performance measures also fail to take into account any "macro economic" factors that might impact local communities, such as corporate relocations or major plant closings, corporate buy-outs and mergers, international trade agreements and rulings, and other policy changes made by federal and state officials. All of these factors play a powerful role in the

ability of state and local officials (including regional development organizations) to retain existing businesses, generate new jobs and address affordable housing needs within a region.

MYTH #9: The administration's reform proposal would empower distressed areas and would provide additional resources for state and local initiatives aimed generating new jobs and enhancing community development programs.

REALITY: The administration's proposal takes away the "bottom-up" approach and local flexibility currently employed in programs such as EDA and CDBG. Instead of local communities and regions developing and pursuing strategies based on their individual assets and strengths, the administration is attempting to push a "one-size-fits-all" approach to economic development. The reform proposal would essentially eliminate federal grant assistance for broader community development initiatives, which are essential to making distressed areas more livable for residents and attractive to the private sector.

The proposal includes dozens of new unfunded federal mandates and directives – such as unfunded planning mandates, extraneous performance benchmarks and requiring expensive grants management systems. As part of the challenge grant bonus program, communities must meet goals tied to federal education standards, lowering local regulatory barriers to business and housing development, and reducing violent crime rates. These are admiral goals but historically these are all issues addressed by state and local governments – not strong armed by the federal government.

It significantly expands the funding opportunities and the involvement of faith-based groups in job creation and economic development programs, while potentially setting up different and weaker accountability standards for these organizations. It also emphasizes under the planning and technical assistance portions of the program the role of consultants, universities and for-profit groups. While these groups may be qualified for specific functions and tasks, the nation's local landscape is scarred with communities burned by outside groups without ties and accountability in the local community and region. Groups such as local governments and regional development organizations have strong local ties, must achieve local consensus and are directly accountable to local residents and leaders.

MYTH #10: The administration's plan, like the CDBG program, would provide funding directly to states and local governments such as cities and counties. Most communities would also see an increase in funding.

REALITY: When reading the administration's background material on the *Strengthening America's Communities* initiative there are direct and specific references to the roles and responsibilities of states. **However, in discussing the role of local governments the documents only reference "local communities."** There is an important and distinct difference between allocating money and program responsibilities directly to local governments -- cities and counties – compared with other organizations at the community level. In any community and economic development proposal, cities and counties must both be eligible to be entitlement and challenge grant communities and to receive assistance from the state portion of the program. This reflects the fact that the vast majority of the public infrastructure and services provided to local residents and businesses are owned, operated and maintained by local governments. While the private sector is instrumental and necessary to job creation and community development efforts, the private sector also relies, expects and demands that public entities provide and maintain a vast array of public services. And, to serve the rural and smaller communities within our nation counties and regional development organizations must be key players and stakeholders in the process.