



U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

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July 22, 2011

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BRIEFING MEMORANDUM

TO: Members of the Subcommittee on Economic Development, Public Buildings, and Emergency Management
FROM: Subcommittee on Economic Development, Public Buildings, and Emergency Management Staff
SUBJECT: Oversight Hearing on “The Economic Development Administration: How to Improve Effectiveness through Reforms and Consolidations”

PURPOSE OF THE HEARING

The Subcommittee on Economic Development, Public Buildings, and Emergency Management will meet on Wednesday, at 10:30 a.m., in room 2253 of the Rayburn House Office Building to receive testimony regarding the Economic Development Administration (EDA) and how its programs can be improved. In addition, the hearing will also focus on how EDA’s programs create jobs and how job creation can be maximized. The Subcommittee will receive testimony from EDA, the Government Accountability Office (GAO), local economic development officials, and the private sector.

BACKGROUND

The Subcommittee has jurisdiction over economic development issues and federal agencies created to promote economic development in communities suffering economic distress. Specifically, the Subcommittee has jurisdiction over EDA (an agency within the Department of Commerce), the Appalachian Regional Commission (ARC), the Denali Commission, and the Delta Regional Authority (DRA), as well and other regional commissions established in more recent years.

Economic Development Administration

EDA was originally established in 1965 by the Public Works and Economic Development Act. It was created to alleviate conditions of substantial and persistent

unemployment in economically distressed areas. The current mission of EDA is “to lead the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy.” In particular, EDA programs are intended to help local communities attract private sector investment to maximize job creation. EDA does this primarily by leveraging other investment. For example, EDA’s public works program may help create the remaining infrastructure funding needed for a local community to attract a manufacturing facility to their area. As a result, EDA’s grants are used in conjunction with private and local dollars to generate economic growth and create jobs.

EDA provides grants for projects through a variety of programs including: planning; technical assistance; public works; economic adjustment; trade adjustment assistance, and research and evaluation. Projects funded by EDA are generally located in areas exhibiting economic distress. In addition, all public works and economic adjustment projects must be consistent with an EDA-approved Comprehensive Economic Development Strategy (CEDS).

Key Grant Programs

Planning grants: Planning grants support the design and implementation of effective economic development policies and plans by local organizations.

Public works: Public works grants provide for infrastructure projects that foster the establishment or expansion of industrial and commercial businesses in communities experiencing high unemployment, underemployment, low per-capita income, or out-migration.

Economic Adjustment: Economic adjustment investments provide various types of assistance, including planning, technical assistance, revolving loan funds and infrastructure development, to help communities experiencing either a gradual erosion of or a sudden dislocation of local industry as a result of natural disasters, international trade competition, or major plant closings.

Trade Adjustment: Trade adjustment assistance provides technical assistance, through a national network of 12 Trade Adjustment Assistance Centers (TAAC), to certify U.S. manufacturing firms and industries economically injured as the result of international trade competition.

EDA Authorization History

The first authorization of EDA in 1965 expired in 1970. And, from 1970 through 1980, EDA continued to operate without a reauthorization. During this time, the EDA continued to receive appropriations, including \$6 billion for public works projects in 1976 and 1977. In 1980, EDA's programs were reauthorized; however, that reauthorization expired in 1982, and until 1998, the EDA continued without an authorization.

The Economic Development Administration and Appalachian Regional Development Reform Act of 1998 (P.L. 105-393) reauthorized the EDA for a period of five years, and authorized funding levels that progressively declined from an initial amount of \$398 million for fiscal year FY1999 to \$335 million in FY2003. Additionally, this reauthorization put into place a number of the management and administrative reforms, such as efforts to target the most distressed areas. The Economic Development Administration Reauthorization Act of 2004 (P.L. 108-373) reauthorized EDA for a period of five years, through FY 2008.

Studies of EDA Programs

In 2008, EDA contracted Grant Thornton to study the costs and economic impact of EDA's construction investments. This study is similar in content to a study conducted by Rutgers University in 1997. The Grant Thornton study surveyed over 40 Federal programs. The Grant Thornton study concluded that EDA investments in rural areas have a significant impact on employment levels, generating between 2.2 and 5.0 jobs per \$10,000 in EDA funding, at a cost per job of between \$2,001 and \$4,611. The study further concluded that EDA's investment in business incubators was worthwhile and concluded that this type of investment generates significantly greater impacts in the communities in which they are made than do other project types.

GAO Report

In March of 2011, the GAO issued a report on economic development programs across the federal government. Specifically, the GAO examined "80 economic development programs at four agencies—the Departments of Commerce (Commerce), Housing and Urban Development (HUD), and Agriculture (USDA); and the Small Business Administration (SBA)—to assess potential for overlap in the design of the programs, the extent to which the four agencies collaborate to achieve common goals, and the extent to which the agencies have developed measures to determine the programs' effectiveness."¹

The GAO found fragmentation and overlaps among many of these programs. In previous GAO studies the GAO recommended specific "collaborative" practices agencies should consider implementing to streamline their programs and effectively leverage resources. These suggestions included:

- leveraging physical and administrative resources;
- establishing compatible policies and procedures;
- monitoring collaboration; and
- reinforcing agency accountability for collaborative efforts through strategic or annual performance plans.

While GAO has found that the agencies have taken some actions towards

¹ GAO-11-318SP, March 2011.

implementing these recommendations, the GAO found there had not been much improvement in streamlining policies and procedures and leveraging resources among agencies. In addition, with regards to EDA in particular, the GAO raised concerns about the quality of self-reported data EDA uses to evaluate its effectiveness and determine the number of jobs created.

WITNESSES

The Honorable John R. Fernandez
Assistant Secretary of Commerce for Economic Development
U.S. Department of Commerce

Mr. William Shear
Director
Financial Markets and Community Investment
U.S. Government Accountability Office

Mr. Steve Etcher
Executive Director
Boonslick Regional Planning Commission
National Association of Development Organizations

Mr. David L. Spaur
President
Merced County Economic Development Corporation

Mr. David Baker
Senior Vice President
FutureFuel Corporation