# 10. COMMUNITY AND REGIONAL DEVELOPMENT

**Table 10–1. Federal Resources in Support of Community and Regional Development**
(In millions of dollars)

| Function 450 | 2000 Actual | Estimate 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Spending:** | | | | | | | |
| Discretionary Budget Authority ... | 12,210 | 10,965 | 10,350 | 10,693 | 10,864 | 11,095 | 11,332 |
| Mandatory Outlays: | | | | | | | |
| Existing law ............................... | –796 | –647 | –278 | –662 | –719 | –833 | –865 |
| Proposed legislation ................... | ............. | ............. | –12 | –61 | –123 | –232 | –377 |
| **Credit Activity:** | | | | | | | |
| Direct loan disbursements ............ | 1,891 | 2,180 | 1,918 | 1,798 | 2,012 | 2,011 | 2,011 |
| Guaranteed loans .......................... | 1,418 | 2,798 | 2,450 | 2,020 | 1,760 | 1,829 | 1,860 |
| **Tax Expenditures:** | | | | | | | |
| Existing law .................................. | 1,180 | 1,400 | 1,890 | 2,450 | 2,420 | 2,600 | 3,090 |

Federal support of community and regional development helps build the Nation's economy and helps economically distressed urban and rural communities secure a larger share of America's prosperity. The Federal Government spends nearly $12 billion a year, and offers about $1.4 billion in tax incentives to help States and localities create jobs and economic opportunity, and build infrastructure to support commercial and industrial development. Federal programs have helped to stabilize and revitalize many of these communities, allowing them to expand their economic base and support their citizens, particularly those in need.

## Housing and Community Development

The Department of Housing and Urban Development (HUD) provides communities with funds to promote commercial and industrial development, enhance infrastructure, and develop strategies to provide affordable housing close to jobs. HUD also provides grants and sponsors research to reduce the hazards created by lead-based paint in housing.

Community Development Block Grants (CDBG) provide funds for various community development activities directed primarily at low-and moderate-income persons. CDBG funds help to improve housing, public works and services, promote economic development, and acquire or clear land. Seventy percent of CDBG funds are given to more than 1,000 central cities and urban counties, and the remaining 30 percent go to States to award to smaller localities. There are also several smaller programs funded within the CDBG program. The University Partnerships Program provides grants to academic institutions, including Historically Black Colleges and Universities, Hispanic Serving Institutions, and Tribal Colleges. The Indian CDBG, a set-aside within the larger CDBG program, focuses mainly on public infrastructure, community facilities, and economic development on reservations.

In 2002, CDBG will support $4.4 billion in formula grants to States and entitlement communities. CDBG will also include two new initiatives. The first will provide $80 million in competitive grants to create or expand community technology centers in high poverty areas and provide technical assistance to those centers. The second will be a competitive grant program to provide funds to ADA-exempt civic, community, and religiously affiliated organizations to make their facilities accessible to the disabled.

The 2002 Budget provides $1.8 billion for HUD's HOME Investment Partnerships Program to expand the supply of affordable rental and homeownership housing for low and moderate-income families through acquisition, new construction and rehabilitation. In addition, new homebuyers can receive help in rehabilitating their homes and renters can receive help through direct tenant-based rental assistance programs. HOME funds are provided to every State and over 550 local governments who design the affordable housing programs that best address their needs. HOME also supports homeownership assistance counseling programs, and in 2002 a new down payment assistance initiative will be included.

Performance goals for the CDBG and HOME programs in 2002 include:

- producing approximately 161,000 units of rehabilitated and newly constructed housing for ownership and rental through the CDBG program;
- creating more than 114,000 jobs through CDBG;
- producing over 71,000 units of affordable housing and providing direct rental assistance to nearly 10,000 tenants through the HOME program; and
- providing down payment assistance to 130,000 new homebuyers through the new down payment assistance initiative to first-time homeowners program.

### Empowerment Zones and Economic Development Tax Incentives

The Community Renewal and Tax Relief Act of 2000 provided for the designation of nine new Empowerment Zones (EZs), seven in urban areas and two in rural areas, bringing the total number of EZs to 40. EZs provide tax incentives and grants to carry out 10-year, community-wide strategic plans to revitalize designated areas.

The Act also created a new program under which 40 Renewal Communities will be competitively designated by HUD and an Advisory Council by December 31, 2001. Renewal Communities will be areas of pervasive poverty, unemployment and general distress, will receive tax incentives and wage credits.

In 2002, the Administration will work with communities to improve utilization of tax incentives available to EZ/ECs that currently are underutilized.

### Community Capacity Building

The Department of Commerce's Economic Development Administration (EDA) provides assistance to communities to help build capacity and address long-term economic challenges through its nationwide program delivery network. EDA's public works grants help build or expand public facilities to stimulate industrial and commercial growth, such as industrial parks, business incubators, access roads, water and sewer lines, and port and terminal developments. EDA also assists communities in addressing sudden and severe economic downturns and in adjusting to downsizing and closure of defense facilities. The 2002 Budget requests funding for EDA programs of $335 million, the level authorized for 2002.

EDA's performance targets for 2002 include:

- Creating or retaining nearly 58,000 jobs and generating $1.94 billion in private-sector leveraged investment by 2011 with infrastructure development investments made in 2002. Interim performance measures in achieving long-term performance targets include nearly 5,800 jobs created or retained and $190 million in private sector investment by 2005.
- Achieving $277 million in State and local dollars being committed to EDA projects in 2002.
- Targeting 40 percent of EDA grants to areas of highest distress nationwide in 2002.

**Community Development Financial Institutions**

The Community Development Financial Institutions (CDFI) Fund seeks to promote economic revitalization and community development in distressed areas by increasing the availability of capital and leveraging private sector funds for community development banks, credit unions, venture capital funds, and microenterprise loan funds.

The 2002 Budget includes $68 million for the CDFI Fund. CDFI will also administer the New Markets Tax Credit, which is expected to stimulate $15 billion in new private capital investment in CDFIs and other qualified entities over 10 years.

The 2002 goals for the CDFI Fund include:

- providing financial and technical assistance to 100 CDFIs through the Core, Intermediary, and Technical Assistance programs; and
- leveraging $448 million in community development investments through the Bank Enterprise Awards program.

**Rural Community Advancement**

Because their needs are different, no single approach will help both urban and rural communities. To address this, the budget provides flexible funding through the Rural Community Advancement Program (RCAP). RCAP grants, loans, and loan guarantees stimulate economic development, help build rural community facilities, such as health clinics, day care centers, as well as water and wastewater systems. Under RCAP, States have increased flexibility within the three funding streams for Water and Wastewater, Community Facilities, and Business and Industry. The Department of Agriculture (USDA) State Directors have the authority to transfer up to 25 percent of the funding between any of the programs contained within a stream in order to tailor RCAP assistance to the specific rural economic development needs of individual States. USDA also provides loans through the Intermediary Relending Program (IRP), which provides funds to an intermediary such as a State or local government agency that, in turn, provides funds for economic and community development projects in rural areas.

The 2002 goals for these USDA programs include:

- retaining and creating 58,000 new jobs through the Business and Industry and IRP loan programs.

**Department of the Interior**

The Department of the Interior's (DOI) Bureau of Indian Affairs (BIA) helps Native American Tribes, organizations, and individuals improve their economies, natural resources, and communities. BIA administers more than 56 million acres of Indian trust lands, and assists Indian landowners in developing agricultural, grazing, forestry, mineral, oil, and gas resources. In addition, BIA helps Indian businesses secure private capital through its loan guarantee program and partnerships with other Federal agencies. BIA also assists Tribal governments in providing law enforcement, fire protection, employment training, housing assistance, and other community services. BIA provides support for 185 elementary and secondary schools, and 25 Tribal community colleges, and maintains more than 7,000 buildings, including school and dormitory facilities, 3,000 employee housing units, and more than 200 dams and irrigation facilities. Working with Federal, State, and local transportation agencies, BIA maintains and improves nearly 50,000 miles of road and 770 bridges that provide access to schools, employment, health, and other public services.

BIA's goals for 2002 include:

- investing $123 million to replace the remaining six schools on the 2000 priority list: Fort Wingate Elementary Boarding School Dormitory and Santa Fe Indian Boarding School in New Mexico; Pollaca Elementary School and Holbrook Boarding School Dormitory in Arizona; Ojibwa Elementary and Middle School in North Dakota; and Paschal Sherman Boarding School in Washington;
- providing $165 million to further reduce the backlog of maintenance and repair needs at BIA schools. With continued funding at this level and stronger over-

sight, BIA would eliminate the current $942 million backlog over five years;

- providing $25 million to implement recently enacted Indian land and water settlement agreements for tribes in California, Colorado, New Mexico, Michigan, and Utah; and

- providing $12 million to improve Indian trust program operations, while continuing to work with DOI's Special Trustee for American Indians on installing modern trust fund accounting and management systems for more accurate and timely information on payments to over 263,000 tribal and individual accounts.

### Regional Development Programs

Federal efforts have been instrumental in shaping the economic development and prosperity of many U.S. regions through targeted assistance programs. Two areas in which longstanding efforts have been underway are the Tennessee Valley and the Appalachian Region. More recently, Federal resources have been leveraged to provide substantial financial and technical assistance to the District of Columbia and the Mississippi Delta Region, both of which have struggled with unique financial and economic problems.

***Appalachian Region:*** The Appalachian Regional Commission (ARC) targets its resources to highly distressed areas in 13 States in Appalachia, focusing on critical development issues on a regional scale, and making strategic investments that leverage other Federal, State, local, and private participation and resources.

In 2002, ARC-supported activities throughout Appalachia are expected to:

- provide more than 30,000 households with access to new or improved water, sewage, or waste management systems;

- provide educational and worker training programs to more than 25,000 students; and

- place 100 physicians in health professional shortage areas.

***District of Columbia:*** To fulfill the Federal Government's commitments to the District of Columbia under the Revitalization Act, the Administration's budget proposes $494 million for District courts and corrections, including $201 million to house the District's sentenced felon population, $147 million for the Court Services and Offender Supervision Agency, and $146 million for the District Courts.

In addition, the budget requests $17 million to continue the District's Tuition Assistance Grant Program.

***Delta Region:*** The recently-created Delta Regional Authority (DRA) will provide a framework for coordinated Federal, State, and local government efforts to meet the development challenges in this region. The budget requests $20 million for DRA. DRA will focus on basic public infrastructure in distressed counties and isolated areas of distress; transportation infrastructure for the purpose of facilitating economic development in the region; business development; and job training or employment-related education.

The region is comprised of 236 counties and parishes in eight States: Alabama, Arkansas, Illinois, Kentucky, Louisiana, Mississippi, Missouri, and Tennessee. In the area's distressed counties, poverty estimates are more than double the national average and per capita income estimates are only 53 percent of the U.S. average.

### Disaster Relief and Insurance

The Federal Government provides financial help to cover a large share of the Nation's losses from natural disasters. In the last 10 years, two major Federal disaster assistance programs—the Federal Emergency Management Agency's (FEMA's) Disaster Relief Fund and the Small Business Administration's (SBA) Disaster Loan program—have provided more than $43 billion in emergency assistance. The Federal Government shares the costs with States for infrastructure rebuilding; makes disaster loans to individuals and businesses to cover uninsured losses; and provides grants for emergency needs and housing assistance, unemployment assistance, and crisis counseling.

In recent years, emergency supplemental appropriations have been used to finance many of the costs associated with disasters.

In fact, emergencies have become a recurring feature of the budget process, where they have become magnets for special interest, non-emergency spending. The budget proposes a strategy that will ensure adequate funding for FEMA and SBA disaster programs (as well as DOI and USDA fire fighting programs), and limit disaster supplementals to extremely rare events by setting aside a reserve for emergency needs. The National Emergency Reserve will supplement these programs when significant needs arise and also supplement other Federal programs to the extent that they must respond to domestic disasters.

In addition to responding to disasters, much of FEMA's focus is disaster preparedness and mitigation. Since 1989, FEMA has provided $2.7 billion to States and communities following disasters for hazard mitigation projects to reduce the costs of future disasters. Recent Stafford Act changes, enacted in 2000, will ensure that a higher percentage of funds spent by the Federal Government and States following future disasters will be allocated to hazard mitigation activities.

The budget proposes two reforms that will help to ensure that States and localities make a significant commitment to preparing for disasters before they happen. First, the Administration proposes that publicly-owned buildings carry disaster insurance. States and communities that do not carry insurance should not be rewarded with disaster assistance unavailable to those who do carry insurance. Second, States will be expected to carry a larger share (50 percent) of the cost associated with hazard mitigation grants, the pre-1993 practice for the program. Shouldering a larger share of the costs will help to ensure that States select truly cost-effective projects, an incentive that is missing if most of the funding is provided by FEMA.

Communities participating in FEMA's flood insurance program, which provides the only source of affordable flood insurance to property owners, must mitigate future losses by adopting and enforcing floodplain management measures that protect lives and new construction from flooding. FEMA is also modernizing its inventory of flood plain maps and taking measures to mitigate properties experiencing repetitive flood damages.

The budget proposes two reforms that will end preferential treatment of certain properties in the program. First, flood insurance will no longer be available for several thousand properties that are flooded regularly, but that are not required to pay risk-based premiums. Starting in 2002, owners of these properties will be allowed one claim before being removed from the program. Second, the budget proposes phasing out subsidized premiums for vacation homes, rental properties and other non-primary properties. Both measures will help stabilize the program's long term finances.

The 2002 goals for FEMA include:

- increasing the number of flood insurance policies in force by five percent. FEMA has already overseen tremendous growth in the number of policies issued by the National Flood Insurance Program, which has grown to 4.2 million policyholders, with insurance coverage worth more than $500 billion.

For SBA's disaster loan program, the Administration proposes raising the interest rate charged to business borrowers from about four percent to a comparable maturity Treasury rate (estimated to be approximately 5.5 percent in 2002). With this change, businesses would continue to have access to low cost credit following disasters, but would face greater incentives to mitigate potential losses in the future.

SBA plans to continue working to reduce paperwork and simplifying the loan application process for its disaster loan program. SBA has already streamlined loan processing by introducing automated loan documentation and approval systems.

The 2002 goals for SBA's disaster loan program include:

- processing 80 percent of loans within 21 days of submission to SBA; and

- disbursing initial loan proceeds within three days of receipt of loan closing documents.

**Tax Expenditures**

Tax expenditures related to the Community and Regional Development function will total nearly $2 billion in 2002, and $12 billion from 2002 through 2006. About one-half of this amount is related to the tax incentives for EZs and ECs described earlier in this chapter.

The Administration also proposes to permanently extend the Brownfields tax incentive allowing favorable treatment of expenses incurred in cleaning up abandoned property that may be contaminated. Such cleanup is important because it revitalizes urban communities. In addition, in 2002 the Administration will implement the New Markets Tax Credit, which is expected to stimulate $15 billion in private capital investment over the next 10 years.