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EXAMINATION OF ORGANIZATIONAL AND POLICY
ACTIONS OF THE ECONOMIC DEVELOPMENT
ADMINISTRATION

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JOINT HEARING
BEFORE THE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
AND THE
SUBCOMMITTEE ON
INVESTIGATIONS AND REVIEW
OF THE
COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

SECOND SESSION

OCTOBER 13, 1978

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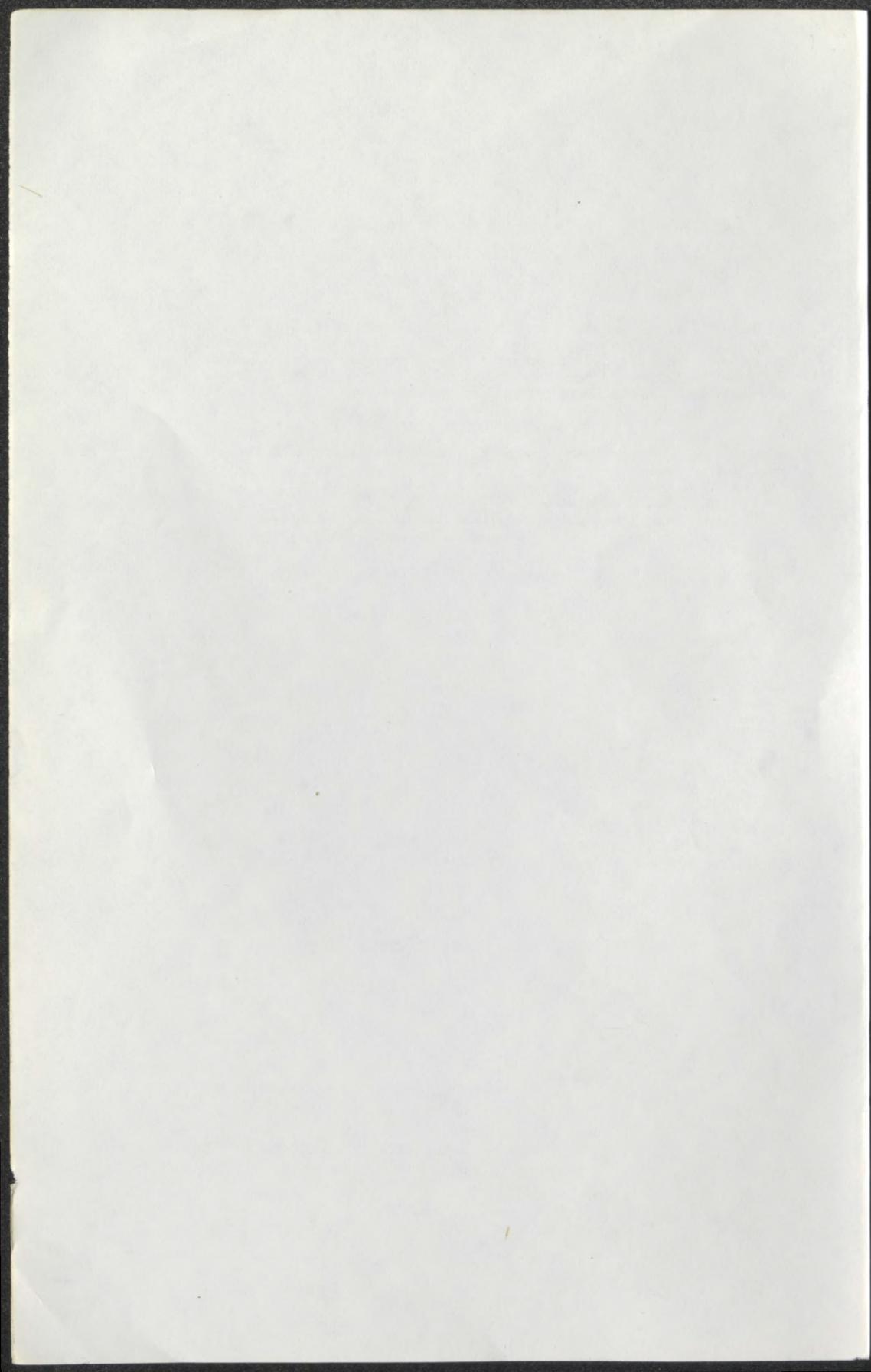
CONTENTS

TESTIMONY

	Page
Hall, Robert T., Assistant Secretary for Economic Development, U.S. Department of Commerce; accompanied by Harold W. Williams, Deputy Assistant Secretary for Economic Development; George T. Karras, Deputy Assistant Secretary for Economic Operations; and Victor A. Hausner, Deputy Assistant Secretary for Economic Development Policy and Planning	4

SUBMISSIONS FOR THE RECORD

Hall, Robert T., Assistant Secretary for Economic Development, U.S. Department of Commerce:	
Response to additional questions from:	
Hon. Elliott H. Levitas	39
Hon. James L. Oberstar	52
Hon. Bo Ginn.....	53



EXAMINATION OF ORGANIZATIONAL AND POLICY ACTIONS OF THE ECONOMIC DEVELOPMENT ADMINISTRATION

FRIDAY, OCTOBER 13, 1978

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT,
SUBCOMMITTEE ON INVESTIGATIONS AND REVIEW,
OF THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION,
Washington, D.C.

The subcommittees met, pursuant to notice, at 10:22 a.m., in room 2167, Rayburn House Office Building, Hon. Robert A. Roe (chairman of the Subcommittee on Economic Development) presiding.

Mr. ROE. The subcommittees will come to order. We are holding the oversight hearings.

I want to welcome everyone here this morning. The Subcommittee on Economic Development and Investigations and Review are holding this hearing in order that the Economic Development Administration can discuss two issues that have caused concern among Members of the House—proposed reorganization of the agency and changes that have been proposed in the composition of Economic Development District Policy Boards.

Members of the subcommittee certainly have no problem understanding EDA's desire to build an organization that makes program management as effective as possible to insure that citizens are getting full value for their tax dollars.

With the new program directions that have been charted by Congress in recent years in EDA legislation, particularly in title II business development loans and the title IX economic adjustment program, it has become very obvious that EDA must add new skills to uphold its reputation for fast, effective service. It is very disappointing to the committee that the Administration has not reflected these new workloads in the staffing patterns and positions allocated to EDA. There is a need for redeployment of existing staff resources to meet these new responsibilities, and we will certainly work with EDA to increase the effectiveness of the programs we have authorized.

We can also appreciate the need to extend the economic development district program into other rural and urban areas. It is obvious that a more flexible approach may be needed to permit other areawide planning and development organizations to become designated for EDA assistance. The committee believes strongly, however, that this is a very important policy issue, and the leadership of both the House and Senate authorizing committees have

written Secretary Kreps suggesting that you move very carefully in changing the public-private sector partnership for economic development that has proven so effective for the economic development districts.

The single, overriding concern of the Members of the House is that EDA seems to be embarking on new policy and program directions that haven't been discussed with the committee and that may undermine the basic strengths of the agency to respond quickly and effectively to problems. No committee in Congress has had more experience with areawide planning systems and requirements than this one. We are all too aware of what has happened to other programs under our jurisdiction when planning redtape replaces effective program management. In both our transportation and water programs we have to constantly fight to keep planning from becoming an "end unto itself" that jeopardizes legislative objectives. Certainly, the history and evaluation of federally aided comprehensive planning, particularly in metropolitan areas, does very little to build up confidence that this kind of a process will accelerate economic development. In our view, EDA's own experience clearly shows that a successful economic development strategy must be based on ability to hit targets of opportunity that can't be predicted in a comprehensive plan.

We are looking forward to testimony that will help us answer these kinds of questions as we begin to develop legislation to reauthorize all of the economic development legislation in the next Congress in 1979.

The Chair defers to the distinguished chairman of the Subcommittee on Investigations and Review, the Honorable Bo Ginn.

Mr. GINN. Thank you, Mr. Chairman. The purpose of this hearing this morning is to receive a report from the Economic Development Administration on certain policy and organizational changes that have been brought to our attention. The Committee on Public Works and Transportation, of which our two subcommittees are a part, is the authorizing committee for the EDA program. Over the years, perhaps the strongest support for EDA that has existed anywhere in the country has been concentrated in this committee.

We have enjoyed a good relationship with EDA and its officials, and we want that relationship to continue.

Some of the reports that have reached us about possible new directions in EDA have been of serious concern. This may be due in part to the fact that we have incomplete information.

For that reason, Secretary Hall and his associates have been invited here—literally in the waning hours of the 95th Congress—so that both EDA and the Congress can have a more comfortable feeling, as we leave town, about things that will be happening in the period ahead.

Mr. Chairman, I want to thank you for your interest in holding this very brief hearing this morning so that we can have a better understanding with our distinguished EDA officials.

Also, I would like to announce for the record that the ranking minority member of the Subcommittee on Investigations and Review, Mr. Jim Cleveland, will join us as soon as he can fulfill another engagement in which he is presently occupied.

Thank you, Mr. Chairman.

Mr. ROE. Thank you.

I defer to the Honorable John Paul Hammerschmidt, ranking minority member from the sovereign State of Arkansas.

Mr. HAMMERSCHMIDT. Mr. Chairman, thank you. I wish to join with you and Chairman Ginn and my other colleagues in welcoming Assistant Secretary Hall today. This hearing, like several others we have had this year, is an effort to encourage general discussion and closer cooperation between Congress and EDA officials. I believe this is a healthy relationship to strengthen economic development programs and to ensure harmony in administrative policies and legislative directives.

One of the subjects which I understand Mr. Hall will discuss this morning is reorganization. I am sure you already realize the very use of this word oftentimes creates anxiety and skepticism. On this subject may I just note in the beginning, as chief of this agency, I recognize your desire to institute new management techniques which will make better use of staff and make EDA more competitive in the increasingly complex economic development field. We are all interested in improving EDA's delivery system and providing greater expertise with respect to new economic development programs.

However, it is my personal belief that these changes must not endanger EDA's strong local support. It must not deter EDA's ability to respond to emergencies. While planning and an overall design is commendable, it accomplishes nothing if EDA cannot review individual projects quickly, and provide the flexibility to allow economic development projects that are specifically suited for local needs. I hope we can work together to better achieve these goals while continuing to refine our programs to meet the changing economic development problems throughout the country.

Mr. GINN. Mr. Chairman, I would ask unanimous consent that Mr. Cleveland's opening statement follow that of Mr. Hammerschmidt at this point in the record.

Mr. ROE. If there is no objection, it is so ordered.

[The statement referred to follows:]

STATEMENT OF HON. JAMES C. CLEVELAND

I am pleased that our two subcommittees have called this hearing. As Economic Development Administration officials are aware, I have fully supported and even praised this program since its inception in 1965. One of its fine points has been that we were basically kept aware by the agency of its progress and we were consulted if changes were in order. I only want to go on record to say that it would indeed be a disappointment to me if the agency were to unilaterally begin to change its format or operations without congressional consultation.

I am looking forward to the explanations we will receive this morning.

Mr. ROE. We would like to welcome our friend and colleagues, Mr. Hall and his associates, this morning. You can see by the opening remarks the area of concern that the committee is representing. I think there is no antipathy on our part. We want to work with the EDA as we have all these years and get a feeling as to exactly some of these programs you are beginning to develop.

We also want to take the time to thank you again for the waning hours for, in my judgment, the extraordinary job that your agency has performed over the last 4 years, particularly as I see it, and the splendid work that was done in the Economic Development Admin-

istration legislation, particularly the local public works capital development and investment bill which we know is an enormous burden, plus the new steel adjustments, and ad infinitum, so we feel strongly and warmly towards the direction you are trying to move, from a management tools point of view, to develop new expertise and better management direction.

I think what our concern is, and it begins to appear in different areas, which I am sure we will get into in your testimony, is that we don't, by setting up the new management tools, and so forth, redirect the program in a direction beyond the scope the committee intends. I think that is basically what we want to get into this morning.

Therefore, I want to welcome Secretary Hall and his colleagues, the distinguished George Karras, Mr. Hausner, and Mr. Williams, this morning. We enjoy being with you and would like to hear from you, Mr. Secretary, on your testimony.

TESTIMONY OF ROBERT T. HALL, ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT, U.S. DEPARTMENT OF COMMERCE, ACCOMPANIED BY HAROLD W. WILLIAMS, DEPUTY ASSISTANT SECRETARY; GEORGE T. KARRAS, DEPUTY ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT OPERATIONS; AND VICTOR A. HAUSNER, DEPUTY ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT POLICY AND PLANNING

Mr. HALL. Thank you, Mr. Chairman. Let me thank you for the kind remarks, and let me reiterate my pledge to work with this committee in the months and years ahead. Clearly it has been a very hectic and busy last couple of years. We are all well aware that the basic legislation is up for reauthorization next year. The whole area of economic development is getting increasingly complex. A lot of changes are coming about in terms of different requirements, and pressures on the economy, and we in the agency appreciate the guidance and support we have gotten from the committees over the last 2 years. We pledge that we will be working with you in the months and the years ahead.

I might add, perhaps parenthetically, when I am asked to testify, I am up until all hours of the night before preparing myself, and I often think of the Congressmen safely home, tucked in bed. So it is with some perverse delight this morning when I learned that the Congress was in session until the late hours last night.

Mr. ROE. One thing about the Congress being in late session is it really sharpens their wits in the morning.

Mr. HALL. Thank you for the opportunity to testify on the issues surrounding possible changes in board composition requirements governing economic development districts and proposed changes in EDA organizational structure.

The EDA has continued to carry out its program responsibilities both in Washington and the field with the basic organizational structure established in 1965. This organizational format is patterned along the lines of the agency's individual program tools, such as business loans and guarantees, public works, technical assistance, and planning. The only organizational changes that have occurred in recent years were the tacking on of new units to

administer newly authorized responsibilities, and gradual steps taken to decentralize some program responsibility to the field.

Recently, a number of developments have made it desirable to re-examine this traditional structure. Foremost among these was President Carter's pledge to make the Federal Government more responsive to the needs of the people. Pursuant to this pledge, the President directed all agencies in the executive branch to undertake organizational studies in order to improve administrative efficiency and make the government work better.

A number of concerns internal to EDA made these studies particularly necessary for the agency. As you know, EDA has experienced a substantial increase in workload and responsibility without commensurate increases in staffing levels. I might note that when I assumed office, the base program budget under the Ford administration for fiscal 1977, was \$212 million, and we now have an operating budget for fiscal 1979 of \$587 million. So in a little less than 2 years the agency's overall resource level of the base regular program has been increased by \$375 million, or 177 percent.

As a result, an increasing number of important program activities and responsibilities have had to be discontinued or only partially accomplished, making it absolutely necessary to see if there are better ways to organize EDA operations so that existing staff resources can be used more efficiently and productively. I might note one activity we have had to almost discontinue, and one that bothers me personally, is the onsite visits to the districts for review and technical assistance.

Second, I would like to note that in the business development loan program we have a portfolio of some half a billion dollars' worth of business development loans excluding the steel program. Overall in the agency we have 45 business development loan officers of which 19 are assigned to servicing this half a billion dollars' worth of loans. The GAO has criticized the agency, and I might add rightly, for not doing the job required to service these loans. In many cases there were situations where, if we had perhaps been in closer touch with the recipients of the loans, we might have been able to mitigate a situation which, by the time it came to our attention, resulted in a default.

A second concern has been the new program tools added to EDA's arsenal over the years, the most important of which have been the title IX economic adjustment program and the State and urban planning programs authorized in title III. Generally, ad hoc organizational units have been established to carry out these new responsibilities rather than integrating them in a way that might disturb the agency's basic organizational structure. While EDA has been effective so far in meeting its new responsibilities, the ad hoc approach to organization building is subject to the law of diminishing returns. EDA has reached a point where add-on functions and responsibilities simply must be folded into the mainstream of the agency's operation.

Third, we have increasingly recognized that an organizational structure based on individual program tools is an impediment to achieving a coordinated agency response to the economic development needs of our clientele. In particular, the organizational separation of planning from the rest of the agency's assistance activity

in the regional offices has hindered our ability to encourage good local economic development planning and programming.

Another need for organizational adjustment and change arises from recent steps that have been taken to decentralize some program responsibility to the regional offices in an effort to use staff more efficiently and eliminate duplicative project processing. This need will become increasingly significant as EDA undertakes a major decentralization effort in the months to come.

An equally important issue underpinning our reorganization effort is the need to strengthen many staff positions in the agency. Like other agencies within the executive branch, EDA has been challenged with serious staff downgradings in the course of personnel reviews. The structure of the agency and the position descriptions that were put in place many years ago have not kept pace with the increased functions and responsibilities which the staff has had to undertake. Therefore, we are faced with the need, to bring up to date and into line, all the personnel and other requirements so that the staff can have just compensation in grade levels. Otherwise, we are faced with downgrades.

Only through a restructuring of these positions will a fairly extensive downgrading process be avoided.

Finally, EDA's commitment to expand its field operation from 6 to 10 regional offices, as directed in the President's budget, mandated a thorough examination of our overall organizational structure because of the extremely constrained staff resources provided to accomplish the expansion. There was a clear need to identify opportunities for staff economies that, if realized, might free personnel slots for assignment to the new regional offices.

In response to these needs and developments, I established early in 1978 an EDA Reorganization Task Force, whose membership included the EDA Deputy Assistant Secretaries as well as Washington and regional office managers and support staff.

The task force, under my chairmanship, was charged with the goal of recommending an organizational structure which would: (1) Be responsive to the needs of the eligible areas served by EDA; (2) increase personnel productivity and efficiency; (3) facilitate the coordinated management of EDA's various program tools in areas served by EDA; and (4) provide for the best use of personnel resources while maintaining employee morale.

The work of the task force was discussed with the senior officials of the agency and briefings on the recommendations were provided to the general staff.

The organization changes recommended by the task force and approved by the Secretary of Commerce and OMB would leave EDA's general structure essentially the same. Line activities in Washington would continue to be split into two major units, those related to operations, or hardware, and those related to policy and planning, or software.

Regional offices would still be headed by directors who report to the Assistant Secretary, and the corps of economic development representatives (EDR's) would continue to function out of their various local offices and continue to report to the regional directors.

There are, however, a number of proposals for important changes within the operations and policy/planning structures in Washington as well as in the regional offices. I will briefly summarize the changes proposed for each of these three areas. Attachment A to my testimony contains current and proposed organization charts for reference purposes. [See page 14.]

First, EDA operations, Washington—major organizational shifts were not recommended for those activities carried out in Washington under the Deputy Assistant Secretary for Operations. However, the adjustments that were proposed for this unit are expected to result in a more efficient use of staff resources.

Moreover, the realignment of some of the operation's offices will strengthen the policy and program development function in Washington while reinforcing the new operational responsibilities of the regional offices which will come about through decentralization.

A new administrative support staff will function as a centralized office for all operations correspondence, budget, and personnel matters, thus relieving individual offices of the need to maintain their own program administrative staffs.

In addition, a new director of program operations reporting directly to the Deputy Assistant Secretary for Operations, will carry out responsibilities which span various operations offices such as the Comprehension Economic Development Strategies demonstration, and the coordination of various program tools.

A new office of special adjustment assistance will deal with problems related to specific local economic dislocations such as military base closings, natural disasters, and other dislocations that are sudden and severe in nature. This office will also be responsible for energy impact assistance if the Congress enacts such legislation.

A realigned office of public investments will have the combined responsibilities of the former Office of Public Works as well as the long-term economic deterioration, or LTED portion of title IX.

The final significant change proposed in this part of EDA is contingent on possible legislative action. A new office of special public works would administer the Local Public Works, or LPW, program, as well as the proposed labor Intensive Public Works, or LIPW, program. If LIPW or a related program were not forthcoming, then we would consider attaching the LPW operation to the office of public investments.

Let me turn now to EDA policy and planning, Washington. Activities under the Deputy Assistant Secretary for Policy and Planning in Washington will be restructured to allow a more effective and efficient alignment of the functions now being performed in this part of the agency.

A new Office of Development Organizations and Planning will be created by adding the remaining planning functions being performed elsewhere and placing the highly technical qualification function with the related activities of Trade Act Certification and Industry Studies. In essence, this new office is simply an expansion and strengthening of ODO's current planning activities—which are now limited to district grants—to include OEDP policies and procedures and the State and urban planning responsibilities currently housed in the Office of Planning and Program Support.

The new office will continue to be the Washington contact point for district organizations around the country. Its creation is expected to allow staff economies of scale, to strengthen Washington's program development and oversight role, and to improve communication with the field on planning policies.

A new Office of Policy, Evaluation, and Research will consolidate a number of organizationally separate activities, all of which are critical to an effective EDA policy development and coordination effort. This consolidation will allow research, program evaluation, and policy analysis findings to be more fully integrated into EDA's decisionmaking process.

Finally, the proposed new Office of Eligibility and Industry Studies creates a natural and logical union of various regulatory and eligibility determination activities now scattered haphazardly across the agency. We expect a better use of scarce professional staff and economies of scale in our data collection efforts as a result of this change.

EDA REGIONAL OFFICES

In conjunction with the EDR's, the regional offices bear much of the responsibility for working directly with applicants to provide EDA assistance to meet the often complex economic development problems of local places. Increasingly, a successful match between local problems and EDA assistance requires the careful management and coordination of our program tools.

A major feature of EDA's traditional field organization has been the existence of offices and divisions for each separate program tool. This arrangement may have been effective when EDA was a smaller agency with fewer program tools, and when the practice of economic development at the local level involved less complex techniques. However, this organizational mode has the increasingly severe disadvantage of compartmentalizing agency operations in ways which tend to inhibit our ability to tailor assistance to meet specific and widely varying local needs.

To solve this problem, our Reorganization Task Force has recommended a regional office structure based on the establishment of development teams that will be responsible for one or more States within a region. These teams, working with the EDR's, will perform the entire process that begins with assisting in identifying area economic development strategies and developing OEDP's, and continues on to individual project identification, selection, processing, and monitoring.

This organizational arrangement will place responsibility and accountability for all economic development planning, project development, and project implementation in a multistate area within a single EDA unit, thereby strengthening EDA's responsiveness and timeliness to client needs.

A detailed explanation of the team approach can be found in Attachment B to my testimony. [See page 22.] Let me summarize what this approach will mean for EDA.

The members of these development teams will include a sufficient number of economic development generalists and specialists to encompass virtually all of the skills and specialties needed to

relate effectively to whatever economic development problems and needs exist in a particular area.

Each team would have two divisions, one for public investments—typically planning, public works, and certain technical assistance projects—and one for private investments—typically business loans and loan guarantees, revolving funds, and technical assistance. Each team would be headed by a deputy regional director.

The functions of the EDR would be substantially the same as they are under the present system, and the EDR would continue to report directly to the regional director. But the EDR would also be a key member of the economic development team. Team members would be available to support the EDR, particularly in outreach and project development, for which many EDR's now find they do not have sufficient time to meet all the demands from eligible areas. Indeed, I would suggest in many cases the EDR's, given the expansion and increasing complexity of the types of programs and program tools, often do not individually have the expertise that is required.

I must say, Mr. Chairman, and members of the committee, over the last year I have received many expressions of concern on the part of many Members of Congress that the single EDR who works very hard and has extensive geography to cover, has often not been available to respond in a timely way to queries and other contacts from local economic development authorities. We feel that this team concept strengthens and gives needed backup to the EDR in order to improve or his responsiveness.

Local leaders would know that when the EDR could not be reached or was too busy, the team leader or one of the economic development specialists would be available to answer questions or provide help. By having a designated team to back him or her up, the EDR will be able to become more effective than at present.

As I indicated earlier, one factor prompting the reorganization was the need to establish at least three additional regional offices—in Boston, New York, and San Francisco. Because EDA was allotted limited new staff resources to accomplish this expansion, it became absolutely necessary to seek ways of freeing staff resources to be allotted to the new regional offices.

One approach, currently under consideration, for accomplishing this is to move some of the Economic Development Assistants into the regional offices. Those EDR's located long distances from their regional offices would, in all likelihood, retain their assistants.

Equipment now exists and could be installed in regional and EDR offices that would permit those EDR's without assistants to secure the necessary secretarial support—typing and telephone answering—long distance from the regional office. Other support work previously done in the State offices by the Economic Development Assistants would now be done by staff of the regional office.

It is expected that this arrangement will not impair, but rather will strengthen the EDR's ability to carry out his or her crucial function in the agency's overall operation.

As to a timetable for implementing this proposed reorganization, the agency hopes to have the national office reorganization undertaken by December 1, 1978. The timetable may slip a few months,

due to some exigencies, but it is basically programed for the end of this calendar year or shortly after the beginning of the next calendar year.

The regional office restructuring and the addition of three regional offices in Boston, New York, and San Francisco will be undertaken in early June 1979.

Let me now turn to the issue of EDA's district board composition requirements, on which I have also been asked to testify.

I believe one of EDA's most significant accomplishments during its first 17 years of existence has been the establishment of some 200 Economic Development district organizations which have been instrumental in the encouragement of planning and management of areawide economic growth. Multijurisdictional cooperation in planning and development is essential for economically lagging communities and those hit by economic dislocation.

EDA's regulations governing the district program include specific requirements concerning the membership composition of the district board of directors. According to these requirements, district board membership must meet the following criteria: (1) The broad representation of principal economic interests, including business, labor, agriculture, minorities, and representatives of the unemployed and underemployed; (2) minority representation equal to the minority population share of the district population, up to a required limit of 25 percent; (3) a simple majority of elected public officials; and (4) private citizen board membership.

To allow more time for studying the issue, the implementation of a requirement that private citizens amount to one-third of the board has been postponed until October 1, 1979. In the meantime, private citizen representation effectively comes about through meeting the principal economic interest requirement.

EDA has had notable success in working with district boards that were organized according to these criteria, and we have become convinced of the effectiveness of this type of institutional structure in the multijurisdictional areas which our district program now covers.

There are a number of important reasons, however, why EDA has been giving serious consideration to changing the requirements governing the structure of district organizations. EDA is approaching the limit of substate districts available to be easily organized as EDD's. A high percentage of the remaining set of substate districts which are not now EDD's have existing areawide and COG organizations set up under HUD and other agency requirements which favor heavy elected official membership.

An analysis done by the National Association of Regional Councils shows that out of 79 EDA "authorized but undesignated districts," over one-half would apparently not meet EDA board requirements because their membership is either completely or primarily elected officials. At least 50 percent of these authorized districts with ineligible organization structures are in rural areas.

It should be remembered that EDA's district policies and requirements were developed in the mid-1960's for multicounty rural areas that generally did not already have areawide planning institutions. In fact, at the time our district program was initiated, the growth

of areawide planning institutions in all parts of the country was at a primitive state of development.

The specification of detailed structural and representational requirements by EDA in these situations was not a controversial issue. Indeed, our regulations gave needed guidance to areas that were in the very early stages of developing areawide institutions and economic development capabilities.

Since that time, other Federal and State agencies have funneled planning resources and authorities through our EDD's, which quickly became the established and recognized planning bodies in their multicounty areas. The gradual addition of other functions and responsibilities has resulted in a situation wherein EDA resources generally average less than 10 percent of the individual budgets of the 214 districts. I might add, Mr. Chairman, my visit to the National Association of Development Organizations'—NADO—annual conference earlier this week in Savannah brought home to me the wide range of different government programs and activities that are being managed through the EDD's, I would suggest when you talk about leverage and linkage in the economic development programs, that is probably one of our best examples of how EDA funds and the EDA program has contributed to a greater benefit above and beyond delivering its own program resources.

While EDA was busy supporting the establishment and strengthening of the district system, many other areawide planning institutions were developing without EDA's involvement or support. Most of these nondistrict institutions or councils of government evolved according to HUD and other Federal requirements as well as State laws, and often have 100-percent elected official control.

The HUD requirements are now adopted or acquiesced to in all but four of the Federal programs which support substate district planning. These are HEW, CSA, USDA and EDA. EDA has been called upon by these COG's and their representatives in Washington to revise its governing board requirements to permit and facilitate the designation of institutions which currently have 100-percent elected official membership.

The COG organizations have argued that it is unrealistic and unfair to expect established and effective areawide institutions to change their current membership to conform to EDA requirements. They cite part IV of OMB Circular A-95 which calls for Federal agencies to utilize existing areawide agencies, other existing and longstanding Federal governing board requirements such as those of DOT, EPA and HUD, and the Administration's interagency intergovernmental planning requirements simplification initiative.

Mr. ROE. If the gentleman will suspend at that point, there is a resolution on the floor, No. 1426, providing for the consideration of rules on the same day reported, so I would suggest, if you don't mind, we will recess at this moment and go and vote and return in about 15 minutes.

Mr. HALL. Fine.

[Short recess.]

Mr. ROE. Thank you, Mr. Secretary, for your patience on our recess.

We will now reconvene and I believe you were on the last paragraph of your testimony.

Mr. HALL. That is correct. We were just noting the Administration's interagency planning requirements simplification initiative. This latter effort will, among other things, promote consistency in board requirements of numerous Federal agencies, including consideration of representation of the interests of elected officials as well as of minorities, business and other groups.

These interests argue further that if EDA expects to play an active role in urban economic development, the agency will have to be concerned with fostering effective economic development planning at the areawide level, in addition to its current capacity building activities at the city government level.

On the other hand, the principles inherent in EDA's current organizational requirements for districts are, the agency believes, absolutely necessary for the success of economic development planning and programing at the local level.

The agency's economic development mission leads naturally to an emphasis on developing and supporting institutions which are representative of all the components of the local economy, including the private sector business community.

EDA's traditional orientation toward economically distressed populations creates a logical concern that minority populations, which usually constitute a high proportion of the unemployed in economically distressed areas, are actively involved in District activities.

Finally, EDA's orientation toward geographic places has led to our requirement for majority membership by local governments, which have the political legitimacy and provide most of the local financial resources to match EDA grant assistance.

The importance of this issue has led EDA to study a number of options and alternatives over the last year which I would like to share with you in summary form: One option is to retain our current requirements which provide a special arrangement that achieves the goal of representation by principal economic interests, local governments, minority groups and private citizens. This option would leave areawide organizations desiring EDD designation with the choice of establishing a totally independent economic development institution meeting EDA requirements or changing their current organizational structure to meet our rules.

Few, if any, COG's are likely to follow either of these two courses of action in order to acquire District designation. While the district program would not be applicable to most metropolitan and many rural situations if EDA followed this option, the agency would not necessarily be prevented from providing some areawide planning and capacity building assistance outside the district program.

A second option is to allow COG's dominated by elected officials to gain EDD designation by lodging primary economic development functions in a related organizational unit which meets our board requirements. This organizational unit might be an augmented COG governing board, a subcommittee or policy advisory committee to the COG, or part of a bicameral, decisionmaking institution where any economic development action would have to be approved both by the COG and by the unit meeting EDA requirements.

This option would allow COG's to become EDD's without giving up our commitment to broad representation; however, it would give

the COG significant responsibility for economic development in the area shared with a body meeting our representation requirements.

If this option were adopted, perhaps it should be restricted to new districts seeking designation. The legitimate Federal interest in preserving the stability of existing districts might not be well served if a change in requirements were applied across the board.

Another alternative, Mr. Chairman, would be a performance approach, allowing an EDD to use any organizational arrangement it chose, provided that economic development responsibilities were effectively carried out and significant representation of principal economic interests, minority groups and private citizens and local governments were achieved.

I have summarized only the most obvious options available to EDA in solving the board representation problem. Recent congressional developments, as you noted, have, of course, overshadowed our attempts to resolve this issue through independent administrative action by the agency.

As you know, EDA's fiscal year 1979 appropriation legislation contains committee report language which urged us to promptly modify the existing regulations so that heretofore ineligible COG's could be designated.

In response to that action, however, you, Mr. Chairman, and the other chairmen and ranking minority members of EDA's authorizing committees sent a letter to Secretary Kreps requesting EDA to withhold any changes until your committees could examine the issue in early 1979.

Since the board composition issue is an important substantive concern, EDA will take no administrative action until this legislative review and consultation can take place.

While implementation of a minimum one-third private sector board quota has been postponed for a year through recent Federal Register notification, EDA will continue to adhere to its current requirements for representation by principal economic interests, minorities and private citizens.

It should be noted, Mr. Chairman, that the full utilization of fiscal year 1979 district planning funds provided in our recent appropriations bill must await the resolution of this issue. The reason for that is that the amount of funding provided for new district starts was based on the assumption that EDA's requirements would be relaxed, allowing the designation of a significant number of currently ineligible organizations. The need for an early resolution of this controversy in 1979 is, therefore, clear and convincing.

Let me conclude, Mr. Chairman, by saying that EDA has not reached any final decisions on this issue. We welcome this opportunity to share with your committee the details of the problems as we see it and to explore with this committee a possible solution which meets the legitimate needs of the parties concerned.

My colleagues and I will be pleased to answer any questions you may have. Thank you.

U.S. DEPARTMENT OF COMMERCE
Economic Development Administration

EXHIBIT TO DDD 0-1

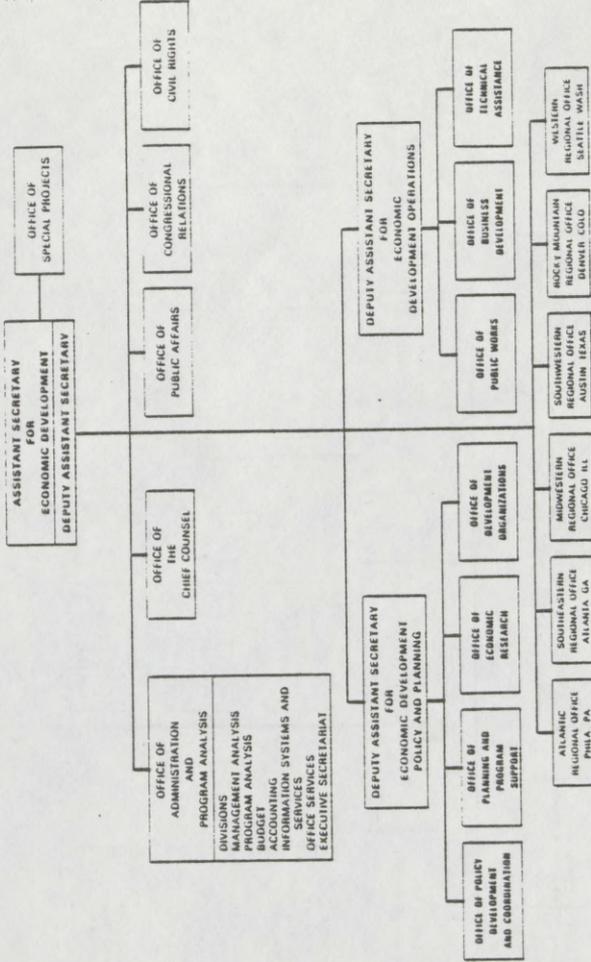
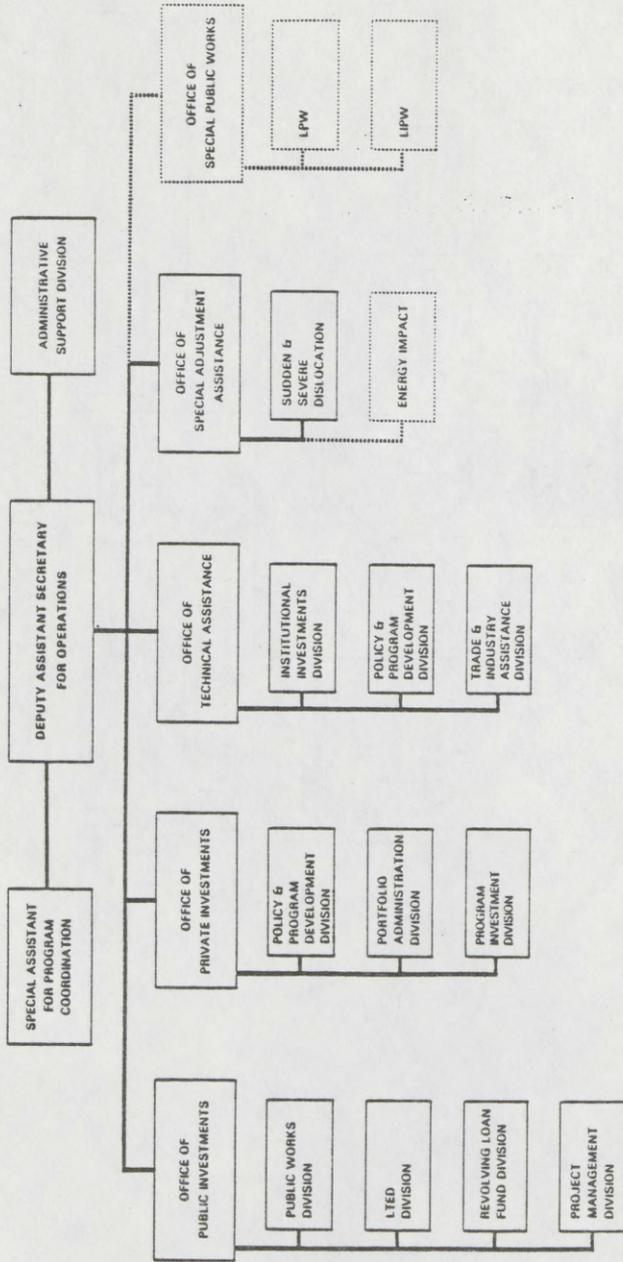
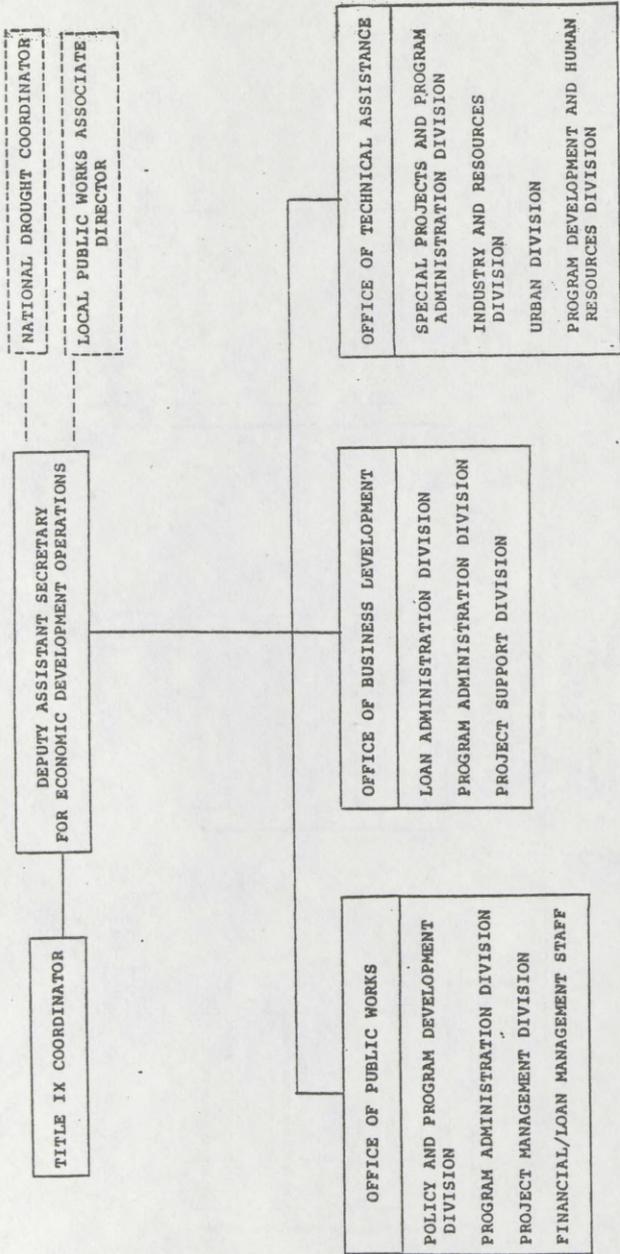


EXHIBIT A-2

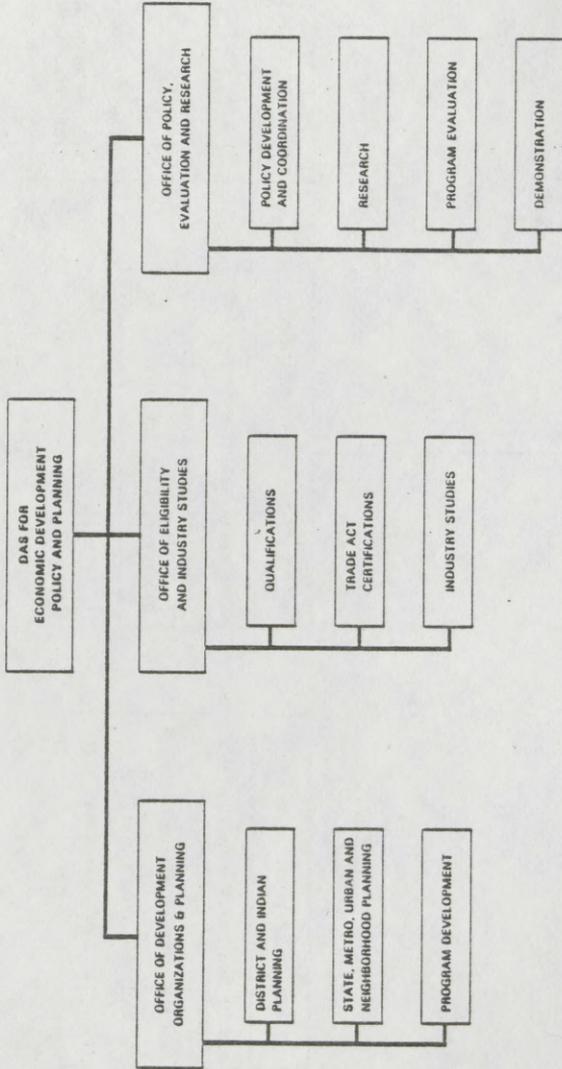
PROPOSED ORGANIZATION FOR DAS/OPS

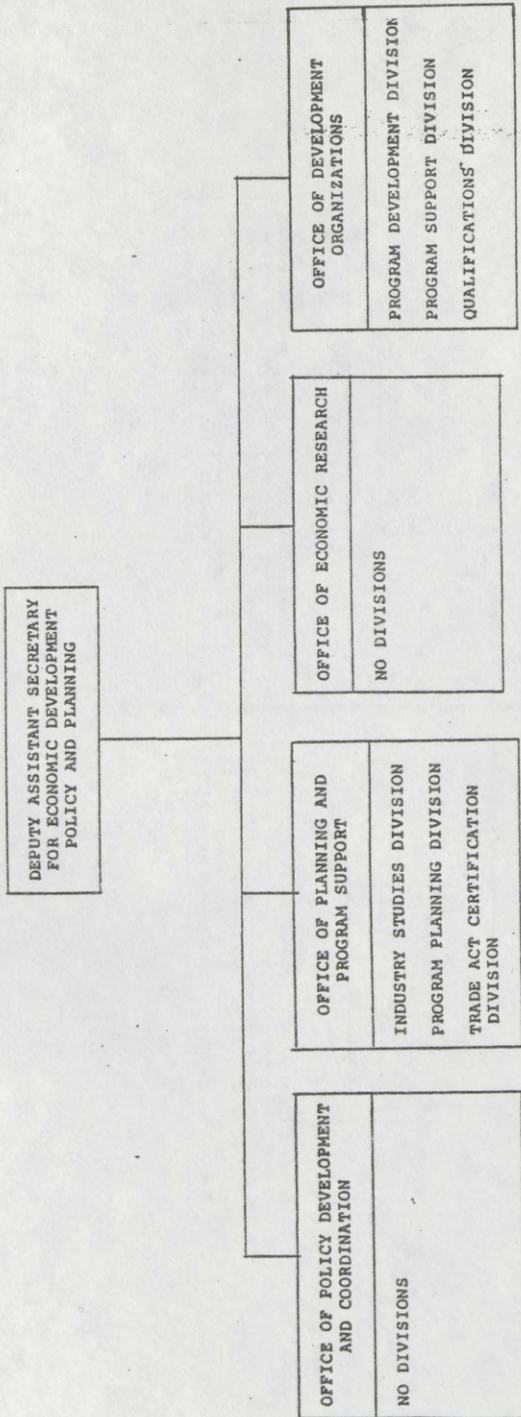




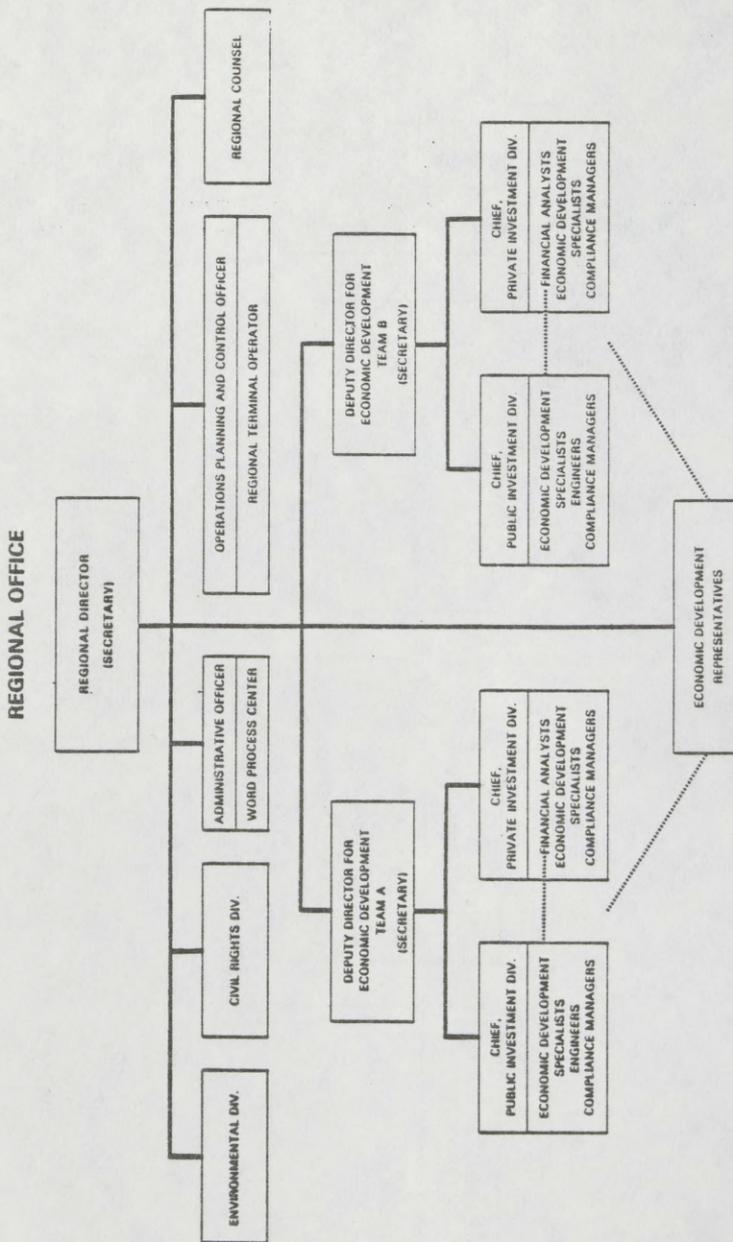
Current Structure as of July 31, 1978

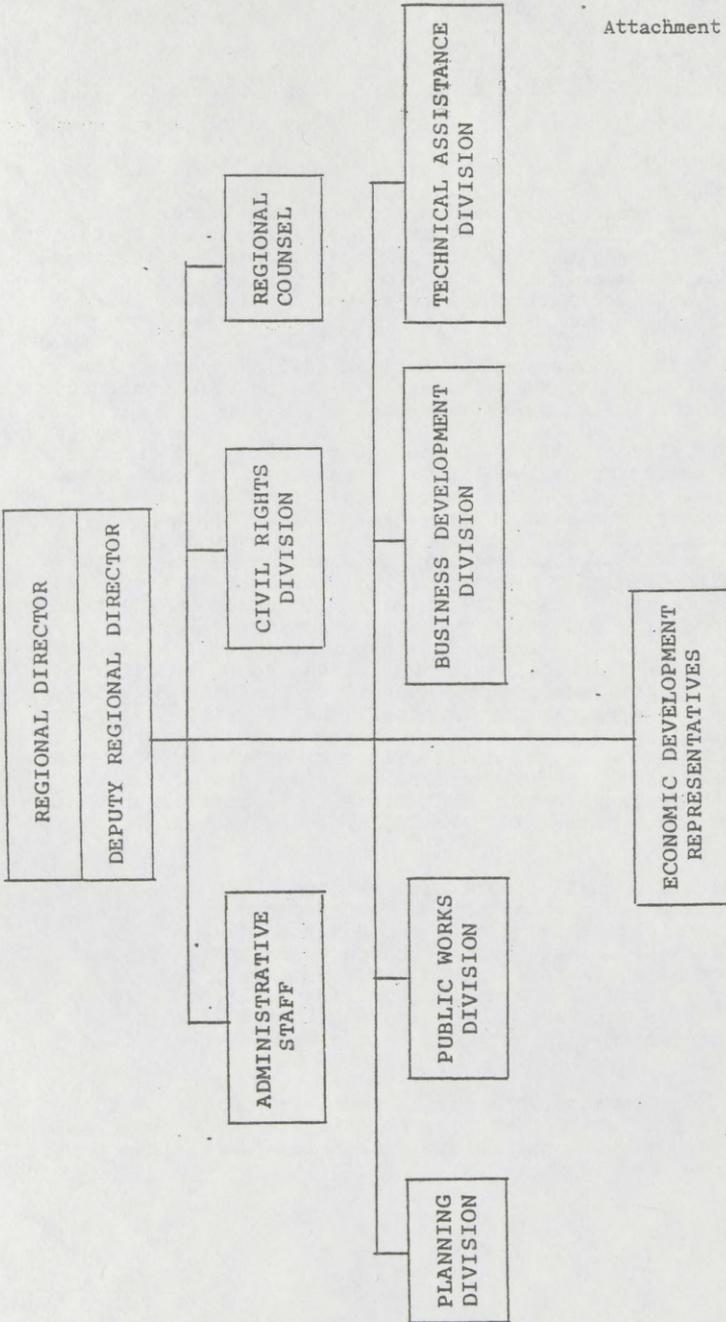
PROPOSED ORGANIZATION FOR DAS/P & P





Current Structure as of July 31, 1978





Current Structure as of July 31, 1978

THE TEAM CONCEPT AS AN EDA OPERATIONAL PROCESS

EDA believes that it can do a better job than it has in the past in carrying out its responsibilities to the Administration and the qualified areas it serves, by forming development teams in the regional offices. The members of these teams would typically include a sufficient number of economic development generalists and specialists to encompass virtually all of the skills and specialties needed to work effectively with the eligible places.

Each team would be responsible for a specified geographical area, usually a multi-State area, so as to provide continuity in relationships with State and local officials.

Under EDA's present method of operation, there is an economic development representative who is responsible for each State or a portion thereof. This representative is charged with all preliminary contacts on projects, as well as the maintenance of a continuing liaison between EDA and the community (or State). Typically, this economic development representative (EDR) will deal with a variety of individuals in EDA's regional office. If the subject matter involves qualification, designation, approval of an overall economic development program or a planning grant, the relationship will be between the EDR and the Planning Division. If the subject matter involves technical assistance (even if the technical assistance involves a degree of planning), the EDR will deal with the Technical Assistance Division in the Regional Office. Public works projects are dealt with through the Public Works Division and projects for business loans or loan guarantees through the Business Development Division. Projects utilizing assistance under Title IX of PWEDA involve a special Title IX liaison officer.

While there is normally coordination among these various offices, and while the Regional Director plays an important coordination role, this type of organization does not make coordination easy. As a result, there tends to be too much orientation of operations around program tools. This is particularly disturbing when projects are developed with insufficient relationship to plans, but it can also result in a preoccupation with projects to the detriment of sound strategies.

Under the team concept, the entire team, including the EDR when the team is dealing with matters in the EDR's geographical area, would work with the eligible area as a unit. The team would be responsible for:

- informing eligible areas about the EDA program and how it works.
- development and approval of planning grants.
- working with eligible areas in the preparation of overall economic development programs and comprehensive economic development strategies; this would include interpreting the requirements, providing basic background information, analyzing needs, reviewing alternative strategies, examining available resources, and securing commitments of policy makers.
- recommending approval of OEDPs and CEDS.
- developing projects, including conceptualization, coordination, preparation of project profiles, presentations to project review committees, and organizing pre-application conferences.
- receiving, processing and recommending disposition of project applications.
- working with applicants on post-approval actions and problems to assure successful completion of a project and appropriate follow-up actions.
- monitoring compliance with project conditions, including appropriate auditing and loan servicing.

Each team would have a team leader who would have the title of Deputy Regional Director. Each team would have two divisions, one for public investments (typically planning, public works and certain technical assistance projects) and one for private investments (typically business loans and loan guarantees, revolving funds and technical assistance). A third division for special public works would be created in the event the Labor Intensive Public Works Program is enacted.

Both the public investments and private investments divisions would have economic development specialists capable of working with qualified areas on planning, project development and the non-technical aspects of project processing. Each of these divisions would also have compliance managers who would concentrate on working with areas and project applicants on actions required subsequent to a project's approval. In

addition, the public investments division would have civil engineers, while the private investments division would include financial analysts on its staff. Engineers and financial analysts would be available for appropriate assignments within the team but in another division. For example, a financial analyst in the private investments division would be available as needed to perform the relatively simple financial analysis needed for public works projects. Engineers from the public investments division would be available as necessary in connection with construction aspects of a business loan project.

The functions of the EDR would be substantially the same as they are under the present system, and the EDR would continue to report directly to the Regional Director as at present. But the EDR would also be a key member of the economic development team. Team members would be available to support the EDR, particularly in outreach and project development, where many EDR's now find that they do not have sufficient time to meet all the demands from eligible areas. Team members and the EDR would work together in a coordinated fashion on all aspects of the economic development process. Local leaders would know that when the EDR could not be reached, that the team leader or one of the economic development specialists would be available to answer questions or to help in some other way with the development process. By having a designated team to back him or her up, the EDR will be able to become more effective than at present.

Under the team concept, the Regional Director would continue to have a special staff of attorneys, civil rights specialists and environmentalists who would work with the teams but report to the Regional Director. An administrative unit and an operations planning and control unit would also report directly to the Regional Director. These staff functions would not change from their present relationship in a Regional Office.

If sufficient personnel were available, it would have been desirable to have on the staff of the Regional Director, a supervisory engineer, a supervisory financial analyst, a supervisory economic development specialist or planner, and so on. These individuals would be the point of contact at a staff level between the region and their counterparts in Washington. Since sufficient personnel are not available, EDA will designate one individual for each specialty as a "senior" in the regional office. In addition to his or her other duties, the "senior" will have a responsibility for keeping other personnel in the regional office advised of matters that are technical or professional and for being a source of advice and consultation on knotty professional or technical problems being experienced. Thus, there would be a senior engineer, a senior financial analyst, a senior planner (one of the economic development specialists or a chief of one of the public investments divisions) and a senior compliance manager. Other personnel would be designated as appropriate as the regional contact person for such special areas as CEDS, sudden and severe dislocations, minority economic development, and Office of Special Projects.

Mr. ROE. Thank you, Mr. Secretary.

May I at the outset observe that I think your testimony is highly comprehensive and is precisely the thrust that the committee was looking for to get, you might say, a documentation of the thought pattern and the direction you are establishing in your consideration of some of the basic problems the agency has encountered with its vast new responsibilities. We agree that change in the bill has to be considered, as you have expressed in your testimony.

I know there is a great deal of concern on the part of the members, and, as you know, I too visited, in Savannah at the economic development seminar and had a chance—not as much as I would have liked—to express the views of the committee on the fact that we were going to have the oversight hearings which are underway today and try to put into focus and understand better the different regional problems. So I think I too benefited by the observation down in Savannah as to what was on people's minds and their concerns.

For the benefit of the committee, if I may share with you, I would like to make a point rather clear, and I know you share this feeling as deeply as we do, that where there is fear of change involved—and change does bring fear because it breaks up traditional patterns—I made it quite clear, as far as the committee was concerned, and I am sure the administration, that we were not interested in change for change's sake. That was not the issue. The issue is that we have to upgrade and perform and improve, you might say, the efficiency of the organization and efficiency of the delivery service.

As long as people are communicating and understanding what is trying to be achieved and how we can come to solutions, maybe we will have to provide options, as you have suggested in your testimony. So I would like to settle once and for all that the committee is not fearful any more than the administration is, but we do believe that the direction that the agency is following must follow the legislative intent of the Congress, which I know is your desire too.

Let me conclude my comments. I have a number of questions but I want to defer to other members this morning.

The other point that I made very clear is that the administration and this committee have been unalterably opposed to any breaking up of the equity in this program. In fact, I think in the LIPW program one of our most difficult situations was, how did we perform in any of our legislative attempts to have an equitable program throughout this Nation, which is your desire too. I am thinking of the point of view of the so-called rural urban split which does not exist on this committee.

As far as this committee is concerned, I think historically every member has recognized most carefully the very great necessity of having a balanced program throughout this nation, that there are just as many poor in the rural areas and needy of jobs as in the urban areas, so we are committed to a balanced equity program throughout the nation.

One more comment and then I will defer to Mr. Ginn from Georgia.

The committee was a little distressed in the approach that appears to be developing through the Appropriations Committee, at least as we interpreted it initially, in the language that we believe would have hobbled the effectiveness of your agency by directing Congress through an appropriations bill to provide resources on some form of a regional allocation.

Frankly and bluntly, that distressed us to no end because that is not the underpinning or the thrust of the whole EDA act from 1965. The effectiveness you talked about of the EDA administration has been based upon the view that it not be hobbled with regional resources and just pumping money into areas because maybe somebody in Congress thought maybe their district or State was not getting their fair share. I will close on this note and defer to Mr. Ginn. It is not the intent of this committee to allow this program to degenerate in any way into a block-type grant program.

It may be that part of the problems that are emerging at the moment, perceptually, may be based upon the point of view of the success of EDA. It is rather unique to have people coming back to the Congress from throughout the country saying, don't change it because it works.

So their concern is, if we change it, will we make it a bureaucratic malaise that the citizen cannot get anything achieved? That is the basic underpinning concern of the committee.

I am pleased to defer to Mr. Ginn, our distinguished chairman from Georgia.

Mr. GINN. Thank you, Mr. Chairman. I think we will have to recess here shortly to make another vote.

[Brief recess.]

Mr. GINN. Thank you very much, gentlemen, and welcome, all of you, before our subcommittee.

Mr. Hall, I was delighted that you were able to travel to Savannah to speak to NADO. We were also delighted to have Chairman Roe there on behalf of our economic development district. We hope all of you spent a lot of money in that beautiful city.

Mr. Secretary, I am somewhat confused about what EDA's current regulations require as to composition of the district board of directors. You say on page 12 of your testimony that "A decision regarding the new requirement that private citizens amount to one-third of the board has been postponed until October 1, 1979."

In a recent memo dated September 8, 1978, you express your concern about the policy of the Senate Appropriations Committee and point out EDA has long been grappling with this issue.

You mention that your agency recently decided on "a reduction of the private citizen representation from one-third to one-fifth of the members of the board."

Can you shed any light on this rather confused point, and what does the one-third requirement currently refer to?

Excuse me. I understand that is the second call. We have 10 minutes to vote. Could you hold your answer until we get back.

[Recess.]

Mr. ROE. Mr. Ginn.

Mr. GINN. Thank you, Mr. Chairman.

Mr. Secretary, having granted you this extra time, we will now appreciate your answer to the question I asked.

Mr. HALL. I must say, Mr. Chairman, I had the answer very ready and very facile when you asked the question. I counseled with my staff and now I am not sure what the answer is.

Seriously, as you know, the act was not very precise in terms of the private sector participation, and some time back the National Advisory Committee recommended the agency adopt a one-third private citizen rule. This was adopted and applied for 1 year. It did come into force for about 16 new economic development districts that year.

In the fall of 1977 we suspended the one-third requirement. In the course of our suspension of this we at that time gave further consideration to reducing the one-third to 20 percent. However, because going from one-third to 20 percent would have affected many existing districts, we decided not to proceed in that direction and did not formally issue a rule on the 20 percent.

Currently, that regulation is now in suspension, although in operating the program we do require some private citizen participation without any numerical floor or requirement.

Mr. GINN. Let me ask you at this point, Mr. Secretary, under what authority are you moving in this direction? Is this law or is it direction from OMB, the White House, or is it just something that you and your people think will make EDA operate better?

Mr. HALL. The last point. We operate within the framework of the statute that says there shall be a range of participation on these boards, including minority and other groups. In developing administrative standards to judge the appropriateness of the representation on the boards that guide the operation of EDD's, EDA has in the past felt that it is administratively appropriate to have numerical requirements.

Mr. GINN. What advantage accrues to the EDA program by changing your regulations to permit a smaller private representation than the large governmental one?

Mr. HALL. Obviously it would give us a little more flexibility in going to those new EDD's which are existing organizations and have a heavier governmental representation.

Mr. Hausner, you may want to elaborate.

Mr. HAUSNER. Thank you, Mr. Hall.

Mr. Congressman, we took a look at the existing economic development districts that are already supported by our agency and were concerned that the application of a strict one-third requirement would put a number of our existing districts out of compliance with the agency's regulations. So there was an attempt to find what would be an appropriate percentage requirement which would not destabilize to a great degree many of the existing districts.

We thought that 20 percent more reasonably met both the need for private citizen participation while not unduly creating chaos in our system of existing districts. What led to our suspension of the one-third requirement was the input from existing districts that pointed to the fact they were out of compliance with the one-third requirement and would have to make all sorts of modifications in their board composition to come into compliance.

Mr. GINN. I appreciate your answers on this. You have touched on this already, but why cannot the 42 districts that cannot now

participate in the EDA program because their existing multipurpose regional agencies are composed mainly of elected officials get the private representations that others have been required to get and in fact have gotten? What is their problem?

Mr. HAUSNER. I think the problem to which the Assistant Secretary alluded in his testimony is that there are long-standing, established organizations in some cases functioning under State law requiring 100 percent elected officials as their composition. To modify those organizations after many, many years with that kind of board composition would be extremely difficult. The existing economic development districts that EDA currently supports were just being formed when EDA began to assist them; and there was great flexibility in composing the structure of their boards.

It appears that the same degree of flexibility is not open to these other organizations, in some cases because of the State law and in other cases because of established tradition that goes back many, many years. We were presented with their problems and asked if there were not organizational alternatives by which they could meet our desire to see private citizen as well as minority representation while they kept their traditional composition. That is the issue of the 42.

Mr. GINN. The reason I am interested so deeply in this subject, it is my understanding the State of Georgia was among the first, if not the first, to organize itself into economic districts, and to my knowledge the system has worked very well and we have had no problem complying.

Mr. HALL. With one or two exceptions, Congressman. There have been in fact some compliance difficulties even in the State of Georgia, and they go around this very same issue of what Georgia State law requires and how that conforms with what EDA requires. It, again, is the difficulty of implementing any Federal program that has some very specified rules about composition that run into conflict with our particular organization.

Mr. ROE. Would the gentleman yield?

Mr. GINN. Yes, by all means.

Mr. ROE. There is a very important underlying point there, however, that I think the gentleman from Georgia is leading to. When you look at what happened in the 1965 law, and as he so well points out, Georgia was really in the forefront in setting up the EDD's and the methodology with which they did it. Then what happened. Those boards became so effective, as I view this, that more and more programs from other agencies were added to the boards.

So, consequently, in the Secretary's testimony, he said that the percentile of planning money or money from EDA going into those districts now is relatively limited in comparative relationship with, for example, HUD. So they have developed a very effective delivery system.

Point No. 2. The Secretary said in his observation that OMB in effect directs HUD to have a structural relationship of elected officials. So, in effect, what we have is a conflict in direction from different Federal agencies at this point, as I see it.

Third, one comes back and says, well, if that is true, which it is factually, we get back to relating to EDA's interpretation of propor-

tionate makeup of the boards to meet their particular interpretation of what they think we mean in the statute.

In other words, we are coming back and saying the core of the issue lies in the determination as to how they see the composition of the board to be. So we have a tripartite system going on. We have, one, these EDD boards established under the original 1965 law. They worked fine. Two, their responsibilities were expanded because of other Federal legislation. Therein, the bulk of the work is no longer financed directly by EDA but probably 80 percent by other agencies. Third, we come back and say part of the conflict emerges out of EDA's interpretation of what the EDA statute meant as far as representation on those boards should be.

Does that kind of set it into focus?

Mr. HALL. That is basically a good framework, Mr. Chairman.

Mr. ROE. Just one more second, if I may, Mr. Chairman. How we eventually configurate it may be that we need a change in the law for interpretation of the law, or change in the law, to say we really do not want EDA to go in that particular direction. I have a question or two I would like to ask on that when you finish your questioning.

Mr. GINN. You have some time, Mr. Chairman.

Mr. ROE. I think that the other side of the coin is—I do not know whether it is possible for us to emerge a policy that is sacrosanct unto itself to meet the specific problems in all regions of the country because the problems are not identically the same.

For digression and a little bit of humor, in the last days of the Congress when I talked to Baltasar Corrada from Puerto Rico I said, "How are you going to meet the requirements of minority representation in Puerto Rico? Are you going to import other than Hispanic folks from Florida?" I do not mean this facetiously, but I think that is a concrete example. Puerto Rico is being handled as a State, as we wrote into the law to be, yet by the same token one cannot come back and say Puerto Rico has to import other than Hispanics into Puerto Rico so they meet minority representation.

I only say this again, not facetiously, to point out that the idea of a rigid rule that says you must do it this way or it is not going to work is not going to fly. What are we going to do on Indian reservations? So I would hope as we explore these solutions that we recognize fundamentally we have a constraint under Federal law, OMB has taken a different direction, your agency is interpreting what you think the committee wants to do in having broader based representation, by the same token even we have different problems that exist in different regions. It would be foolhardy for us to be rigid in one direction where we would destroy the underpinning of economic development in the third of the Nation which has worked so successfully and say you are not going to be funded.

I am also concerned that if we are successful in getting an additional \$7 million for the new EDD's to be established, many areas of the country may be denied the same sort of economic dynamics because they will be hung up on this issue to say nothing if the delay in getting those EDD's structured. Also this proposal is going to materially slow down areas with effective regional programs as you have been so successful in achieving in Georgia and in other urban States who have not been eligible up to this point in

the EDD's. So I think when we are looking to a solution to this issue we do not wish to destroy that which has been so effective, which is the heart of your operation. The credibility of your organization depends upon that and its constituency in the House. So I think we have to look at that very carefully.

We do not wish to slow the program down. May I offer perhaps a rhetorical question? The idea of a regional approach to the CEDS which is in effect a regional strategy has merit as a management tool. The idea of setting up teams because of constraints both in expertise and numerical numbers of trained professionals that you need particularly in business loans and processing of some very complex matters which I am aware of, you are trying to spread that out so that you have a more effective hard-hitting team effort to get into different regions where they need that kind of expertise and also to move more rapidly so that all begins to fall into place.

But when we talk about the effectiveness—of minority participation, what do we see that to do and mean? That could be helpful? What do you see the level, the percentile, the numerical numbers of minority participation to be? Let me add one more codicil to that to help your thought processes. What about an area where we have a third of the board presently structured who are black mayors or assemblymen or senators now? Are they counted as a representative of government or counted as representative of minority?

Are we overplaying the minority situation, and to what goal are we trying to achieve? What is exactly the point we are trying to achieve by the program?

Mr. HALL. Let me respond this way, Mr. Chairman. I think it is well recognized that, in terms of the objectives of the EDA program in dealing with structural economic problems and, by definition, structural unemployment problems, minorities bear a disproportionate burden of the fallout. This particularly true in many areas. To answer you in a broad way, I think it is important, appropriate and indeed mandated by the philosophy of the legislation that minorities appropriately and fully participate in the program.

Mr. ROE. This committee has led the whole Nation in putting through minority entrepreneurship, so we are not antimorality. We are trying to solve that hard core unemployment problem, and I think that is what you are thrusting at in part, and we are coming back and saying if a company is going to locate in a particular area as a part of the target of opportunity, how does that relate now? In other words, if it is jobs you are trying to bring to an area, where does the minority aspect come in? How do you see that to work?

Mr. HALL. Let me respond this way. What we intend is not only minority participation in the decisionmaking process, that is, in the district board policy structure, but as part and parcel of the economic development process we ought to be encouraging, where we can get good economic development projects, that these projects benefit, to the extent possible, the minority community.

Let me specifically address the business development loan part of our programs. Historically, the agency has had about 8 to 10 percent of its business development loan projects involving minority-owned firms. We feel that is an important facet of the business development loan program. Where we can get good business development loans that help generate economic growth and job opportu-

nities, we would like to foster and expand the role of minority-owned firms in the business development loan program.

Historically, I think the record of 8 to 10 percent is quite good. It sort of happened. What we would like to have in the agency now is a more of a structured process to see how well we are doing in this area and how we can and should improve our performance.

Mr. ROE. We have provided for minority entrepreneurs and we are talking about minority share of loans and guarantees. Is it the intent of the administration, should that procedure be followed, to, in effect, suballocate funds to an area for that specific purpose?

Are we coming back and saying in economic development we are going to put hypothetically \$100 into that district, 30 cents out of that dollar has to go for minority, otherwise they do not get the \$100? Are we saying that?

Mr. HALL. No, we are not saying that. But what we are saying is we ought to have some overall agency goals in mind, and, in the course of implementing our programs keep track of these goals and see to what extent we indeed are involving the minority community in the work of this agency. But, I must underline, always, in the context of good viable economic development projects. It is clear in our experience there are substantive problems—for example, minority entrepreneurs not really having access to loans guarantees. They have great difficulty, in many cases, in getting the banks to participate in loan guarantees. So if we were not cognizant of this difficulty, we might on the one hand have an agency policy to move away from direct loans to guaranteed loans to get more leverage. So we have had to pull ourselves up a little bit and say maybe we better keep some direct loan funds aside to deal with these operational problems that a certain portion of our society has.

That is one example of the substantive issues that are real and for which we have a responsibility.

Mr. ROE. These are also targets of opportunity?

Mr. HALL. Exactly. I am glad the chairman raised that. We are not running an OEO. We are not running a CSA. We are running an economic development agency. In many urban and rural areas, economic development can more effectively take place if the local indigenous community is involved, part and parcel. That includes black entrepreneurs.

Mr. ROE. Are you also saying, the thrust of the exchange of colloquy here, is based upon guaranteed loans or direct loans to minority entrepreneurs? That is the area we are focusing on at the moment. When we look at the broad based scope of EDA, whether we are talking about an industrial park, the water resources, plants coming in as a target of opportunity, the whole community gets together because we want them there with the greatest of dispatch. The area we seem to be focusing on, to expand economic opportunities for minorities, pretty much lies in the loan guarantee area. Is that reasonable?

Mr. HALL. It does. But I think also one should pay attention to the other program tools and resources of the agency and monitor the extent to which they are being utilized to promote economic development, economic growth and generation of job opportunities to benefit the hardest hit and the hardest core of our labor force, which by and large is minority.

So we would want to see how we are doing in terms of working in those economic development districts, in distressed areas where there are very high concentrations of minorities and as a corollary, very large concentrations of unemployed to see to what extent we can promote and assist the economic development districts in developing good prospects to which EDA could readily respond.

Mr. ROE. Wouldn't it seem logical, then, so we do not divide the Nation again, to say, let's not talk about allocations in regions of the country to achieve this goal? This ought to be a national goal and there ought to be a national policy of money, I would assume, to do that where it was needed. For example, it may very readily be in 40 of the EDD's in some areas the problem does not exist. There is no sense coming back and saying we have to manufacture one.

Mr. HALL. That is right. We ran into that problem on the 10-percent requirement of the MBE provision.

Mr. ROE. That is it. Our hearts were in the right place. Our sincerity of purpose and fidelity was in the right place. But now they are doing the "60-Minute" television broadcast in West Virginia and are going to tell us what bums we are, not taking into consideration where the program was highly effective. On an overall basis, it was extraordinarily effective, albeit there were a few people that were deceitful and hopefully they will be prosecuted.

The committee feels very strongly on that issue. But I think it would be an error in judgment which ought to be clarified. It is very, very important that the EDD's who have been working since 1965 and other effective areas throughout this Nation do not feel that their funding is going to be allocated focused on an issue that does not exist rather than the point of saying from a national level, OK. If you have 10 problems in your particular EDD situation, you are going to need extra help there.

We are not going to take away from your needs because we want to foster stronger minority participation. I think, for example, it may not be as effective in some of the Southern States or the Southwestern States where as it would be highly effective in States such as Maine with high levels of unemployment in urban centers. So I think that we can dispel in large measure the great concern that has emerged.

The issue is, will our individual programs, historically established, working so well, be denigrated by some kind of an allotment system in those districts just because we want to prove a point?

Mr. HALL. We are not proposing there be any, to use your term, suballocation. Indeed, we do not like allocations, period. There will be no suballocation in terms of a minority program or minority projects. There will be policy goals and guidelines to try to promote minority economic development as much as possible within the economic development districts. Within the program, there will be due consideration and concern for economic development projects that target the hardest hit situations.

Mr. ROE. It is up to them to develop those?

Mr. HALL. That is correct.

Mr. ROE. Whether it is \$10 or \$10,000.

Mr. HALL. I suggest, Mr. Chairman, it is just a new way of looking at what has been a traditional role of economic develop-

ment, it assessing what is the nature of the local problem and just putting a little sharper focus and light on it. Again, I would like to reiterate the substantial increase of funds available to the agency—177 percent—and some \$375 million in 2 fiscal years. I want to reiterate that because a lot of folks may be worrying about a small pie. We are trying to make a larger pie and we are not going to force individuals to reduce their programs to accommodate the expanded thrust and direction of the agency.

Mr. ROE. We ought to make that point clear. The credibility of your organization and the credibility of this committee in the House of Representatives and the work that is being performed so effectively is the reason we got the increased allocation of funding. If we lose that perception, which would be terribly unfortunate, simply because people did not understand what they were saying with each other, then we lose that credibility. That is the point I am concerned with.

Mr. Ginn.

Mr. GINN. Thank you.

Mr. Hall, you have gone a long way toward satisfying me in one respect. I have been somewhat concerned that through urban programs at the House you were changing the character of EDA more to an OEO or CSA or CETA-type program. But you are still wanting to keep this thing based on sound economic development, I gather?

Mr. HALL. Yes. I have been down the other road. I spent many years of my Federal career in a previous incarnation working with the manpower and human service program. I fully realize and I am fully committed to job creation through sound economic development programs in dealing with some very deep social and economic problems in this country.

I am not blaming OMB at this point because I am grateful for the increases that go into this agency, with a fiscal year 1979 budget of some \$600 million, but the Congress this week is passing a \$6 billion or so PSE CETA program. I would hope that we in this agency can, through improved programs and management working closely with State and local governments, demonstrate that economic development has a major role in the creation of stable, well-paying jobs in the private sector, jobs that pay taxes. If we are going to deal with some of the very deep rural and urban structural economic problems, it is going to have to be through private sector job growth.

I think also the vista before us goes well beyond dealing with a traditional problem. As a country we are faced with very serious implications of external economic factors at work, such as the balance of trade, export-import, and technology. In the years ahead, we are going to have to think of economic development, not so much as the traditional industrial park development, but as the development of overseas markets.

I would just like to footnote that we have a very interesting pilot program going on in some economic development districts, with another part of the Commerce Department in which the EDD's and the State development agencies are trying to work out ways of penetrating overseas markets. We are also working on some things with technology in ways that we can reduce costs.

I am getting off in another area. But I am very excited about what we can do. I think economic development is going to change not only in terms of what we have been talking about—administration, management and some thrusts here—but the content is going to change over the next couple of years given other pressures, such as energy costs.

Mr. GINN. Mr. Hall, I am encouraged by the direction you want to continue, that is, jobs, economic development. I would urge as you think about your employment that you also give serious consideration to underemployed, that is, in my part of the country, a problem just as serious as unemployment.

Mr. Chairman, I have two quick questions, and then I would relinquish the time.

Thus far, Mr. Secretary, how much money has been approved, obligated or committed to community-based nonprofit organizations?

Mr. HALL. Last fiscal year, some \$28 million.

Mr. GINN. In that respect, as to the proposed \$12.4 million Federal commitment to Knoxville, Tenn., for the energy exposition, what does that come under? I understand this will be a joint grant from HUD and EDA. The President has made the commitment, but it is my understanding that the Atlanta regional office has not yet formally approved the project. Under what program of yours do you intend to provide this grant money to Knoxville?

Mr. HALL. The funds will basically come out of the public works program. The costs, if you will, to the Federal participants have not been assigned yet.

Mr. Karras, you have been working on that project.

The application, as you know, is still in the Atlanta regional office, although we are in the process of proceeding with it.

Mr. GINN. Isn't it a little bit unusual for a Presidential commitment to be made when the application has not yet left Atlanta and not yet formally approved?

Mr. HALL. No. Obviously, the commitments have been and can be made for set-aside funds to do A, B, or C on the assumption that the application and the formal processing of A, B, C would meet all the legal, statutory and other requirements. I, myself, on occasion have said there are some interesting things going on, and, therefore, we will stand ready to make such-and-such funds available.

Mr. GINN. To me, Mr. Secretary, this completely bypasses the application procedure. Of course I realize the President is your employer and he is my friend, but I intend to discuss this with him because I just think this is on unsound ground. All of us have applications pending that we are begging to be acted on, yet the President makes a commitment of \$12.4 million for something that is yet in the application process. That bothers me.

Mr. HALL. These funds will not come out of the moneys available to the Atlanta region.

Mr. GINN. It bothers me more that this project is not going to be in Georgia.

How much will EDA's share be?

Mr. KARRAS. It is about \$4 million, Mr. Chairman. We are now looking at the proposal in Atlanta, and the environmental effects

in establishing the local share. That is the status of the development at the present time.

Mr. GINN. I am not so much concerned about it. I think an energy exposition would probably be meaningful and helpful. I am just concerned that the White House would make commitments when the Atlanta regional office has not yet concluded their work on the application, and I recognize that is not your problem, but that is a problem somebody will have to address in the application procedure.

Mr. KARRAS. I would like to say, though, Mr. Chairman, we had a similar occasion several years ago in an expo in Spokane, Wash. EDA's involvement in these expos does not really go to the exposition as it takes place, but rather to the massive expenditure of funds that go with expositions of this type and is left in the community afterwards. Our concern is the reuse of major facilities that were put in place for an exposition purpose. The challenge is to take those facilities and convert them into long-term economic development facilities after the exposition—it was the issue in Spokane, Wash., and it is in Knoxville, Tenn.

Mr. GINN. I realize what you say and I cannot completely disagree. I just feel that I and others Members of Congress have their deserving projects that we are attempting to move in accordance with the normal application procedure. But this seems to be greased, so to speak, and I will be very surprised if somewhere that application is not hurriedly sent to Washington and the funds forthcoming. I want to watch this with great interest because I have the plan for an exposition that I want to discuss with you.

Thank you, Mr. Chairman.

Mr. ROE. I understand that applications will be handled through the Knoxville office. The chairman defers to the distinguished gentleman from Arkansas, Mr. Hammerschmidt.

Mr. HAMMERSCHMIDT. Thank you, Mr. Chairman.

Mr. Secretary, one reason that the EDR's have been effective is that they have been able to provide a timely response to local officials to assess real needs and to play a role in developing projects which meet both EDA's expressed goals and solved a particular regional problem. I take it from your statement that EDR's will continue to play a major role in all of these areas.

Mr. HALL. That is correct, Congressman. In fact, we still consider the EDR as the point person in our activity in the local area.

Mr. HAMMERSCHMIDT. You indicate one way you plan to provide additional staffing on the regional level is to transfer EDR assistants in some States. How many transfers of this type do you expect, and how many of your personnel from the Washington office will be transferred to regions?

Mr. HALL. It is too early to determine how many of the EDA's will be offered positions in the new regional structure. This is something we are trying to work out now, and it is too early to tell how much of the Washington office positions will be moved to the field.

We are committed, Mr. Hammerschmidt, to move more of our resources into the field and out of Washington. That relates to one of the key thrusts of the proposed reorganization, to move as much

of the paper processing out of Washington and put it at the regional level, where it belongs, and where it should stop.

So we feel that we can get economies that way. As we free positions, we will put those positions in the field.

For example, part of the problem in answering your question is the fact that it is still not firm at this point whether our end-of-year employment ceiling is going to be 830 or 863. The Appropriations Committee provided us funds for an additional 33 people beyond our ceiling of 830. If we have 863 people, we would have one kind of organization and another with 830 people.

Mr. HAMMERSCHMIDT. Is it your plan to reorganize the existing regional office prior to the opening of the three additional offices, or are you going to do that simultaneously?

Mr. HALL. It will be done concurrently.

Mr. HAMMERSCHMIDT. On the team approach, which you mentioned in your statement, how many States will each team be responsible for, and how many teams do you anticipate in each office?

Mr. HALL. That will vary. As a general answer, we would see two and possibly three teams. In a region like the Southeast, there might be three teams, so the number of States per team could vary to possibly a maximum of four, or even five in a unique circumstance.

That is roughly the grid.

Mr. HAMMERSCHMIDT. Let me return to the concerns expressed by both of our chairmen here and ask you in a little different way the same concern that I also have. Will EDA's continued approach to economic development be to examine individual projects, on their own merit, whenever or wherever they develop, or will there be greater effort, through the reorganization, and those teams that will be working with the EDR's and their obvious power to have administrative leverage, to seek out projects or preselect communities which fulfill national priorities, such as rebuilding central cities or assisting areas with a high concentration of minorities, for example?

Mr. HALL. We are not trying to promote national priorities or policies so much as we are promoting improved economic development investments at the local level. In the course of providing better assistance and technical support from the agency we anticipate that the local areas, the EDD's and others, will come in with better projects as part of a related investment strategy that shows more payoff over time.

We are also prepared to implement multiyear support so we can maintain momentum in the economic development process.

All of that, however, Mr. Hammerschmidt, does not mean—and certainly we would be remiss if we did so—does not mean that we are not actively interested in pursuing individual projects, even those that would be outside of any kind of strategy process.

Mr. HAMMERSCHMIDT. I suppose my concern would be whether the team at that level would have the power to subtly suggest and anticipate whether a project was worthy to the local community and sort of make a prejudgment at that point and prevent that project from receiving higher level review.

Mr. KARRAS. Let me see if I can focus on this, Congressman. One of the things we expect to do from our Washington office of operations is to recognize that our tools are no longer restricted to public works, business loans, and technical assistance, but include also trade adjustment assistance, revolving loan funds, long-term economic deterioration assistance, and title IX assistance for problems resulting from an emergency situation like a military base closing. The teams will be able to respond when, for example, a mayor suggests the creation of an industrial park, because something is ready to happen—an employer is ready to come in and locate a plant.

They come to us and say they need a water system, a sewer system, access road, a railroad spur for purpose of creating a 100-acre industrial park. We want to be able to say, yes, we will capitalize on the opportunity for that private investment, but we want to go beyond that and say: what happens, assuming you get that plant and, frequently, Congressman, those birds-in-hand fly away, they don't necessarily come. But assuming the plant does come, there are still 90 acres left in that park. Frequently a community can have a plum dropped on its lap like that but have no capacity to market the other 90 acres.

So we want to be able to say to them, you may need some technical assistance to give you the capacity to market that land. Or we might also say, don't forget those 90 acres when you look at the business loan program, because, as you are talking to business interests that have made a decision to locate in a particular State, don't necessarily let them go anywhere in the State, but rather direct them to our vacant industrial park, so it won't continue growing weeds.

It is all an attempt to mold our various tools more effectively to fit a specific situation at the local level.

Now, I have got to tell you I am not so sure how well we can do that, but with the team concept and with the people bringing all the specialties of the agency to focus on the situation, we hope we can do that better than we have been able to do it in the past.

Mr. HAMMERSCHMIDT. I appreciate all you have said, George, certainly, and I realize it is a very sincere effort to try to get better tools.

The other part that worries me is suppose you have that mayor and the team and EDR, and they develop a very worthwhile project, and then the regional office says, I am sorry, but your allocation isn't there; there is no funding in your area; we are sorry about that, but you are not in our target system. Is there a possibility that might develop? I know that I am speaking of two different things.

Mr. HALL. There are many individual projects, Mr. Hammerschmidt, to which we say the well is dry. Indeed, what we are trying to do with the team concept is to aid the locality to develop better projects that are linked together, not only at that given point in time but also by some strategy over time. The question of the resource availability is a question of what is available overall.

Mr. HAMMERSCHMIDT. Let me pursue the resource availability. Are you allocating it geographically or by regions, and then are you suballocating it further than that?

Mr. HALL. No. We do, for operational management purposes and indeed mandated by the Congress, provide regional allocations to the six existing regions on the same percentage each averaged in 1975 through 1977. That is the extent of our regional allocations.

There are no State allocations within that; there are no subprogram allocations to geographic areas below the regional level.

Mr. HAMMERSCHMIDT. That allocation is a fairly recent thing that came about with an amendment in the appropriation bill, was it not?

Mr. HALL. That is correct.

Mr. ROE. Will the gentleman yield?

Mr. HAMMERSCHMIDT. I yield.

Mr. ROE. I think it was made specifically clear in the dialog on the floor, as far as the committee was concerned, that in title IX and all the other particular programing, that that did not apply.

What they were simply saying is that they wanted to see a reasonable balance of allocations of resources in certain particular categories. We were very careful in pointing that out to the chairman of the Appropriations Committee at that point, as you recall the colloquy on the floor, and the response that came on the floor.

So what we are saying is that on an overall national basis you are to pursue a reasonable balance, but you are not constrained in your broader base programing in title IX and other areas. That pretty much is your prerogative.

It is specifically important to point out that it was not the intent of the Appropriations Committee or this committee that this program should come into a regional allocation type of funding.

I don't know whether that is helpful in your approach.

Mr. HAMMERSCHMIDT. Thank you, Mr. Chairman.

I may have some other questions if the hearings continue, but in respect to our colleagues here who I am sure have questions, I will withhold questions at this time.

Mr. ROE. I will defer to the gentleman from Georgia, Mr. Levitas, since he has to leave shortly.

Mr. Levitas?

Mr. LEVITAS. Thank you, Mr. Chairman. I appreciate your indulgence in that regard, and that of my colleagues as well.

I have additional questions, that I will submit in writing, if I may, at a later time, for answer, Mr. Chairman.

Mr. ROE. If there is no objection, it is so ordered.

Mr. LEVITAS. I want to direct attention to the portion of your testimony, Mr. Hall, relating to the designation of EDD's and specifically with respect to the board composition.

I must say I am encouraged by your testimony, which indicates you are carefully reviewing the situation and trying to develop a series of options and alternatives which will respect the composition of existing longstanding board memberships of similar types, metropolitan or multijurisdictional planning boards or other planning organizations that have worked, following the theory that if they are appropriate, don't try to change them. I think that is the underlying concept in your testimony. Am I correct in that regard?

Mr. HALL. Yes.

Mr. LEVITAS. One question I have is, can you furnish me with the statutory basis upon which the board composition requirements is based?

Mr. HALL. We can provide it in writing.

Mr. LEVITAS. Would you do so?

Mr. HALL. Yes.

Mr. LEVITAS. And would you furnish it to me personally as well as to the committee for inclusion at this point in the record?

Mr. HALL. Yes.

[The information follows:]

EDA'S SUBMISSION FOR THE RECORD—RESPONSES TO QUESTIONS POSED BY
CONGRESSMAN LEVITAS

Question. What is the statutory basis upon which the EDD board composition requirements are based?

Answer. Two paragraphs of the Public Works and Economic Development Act of 1965, as Amended, (PWEDA) when read conjunctively, provide the statutory basis upon which EDD board composition requirements are based. The pertinent portions of the Act are stated as follows:

"PART B—ECONOMIC DEVELOPMENT DISTRICTS

"Sec. 403(a) In order that economic development projects of broader geographical significance may be planned and carried out, the Secretary is authorized—

"(1) to designate appropriate "economic development districts . . . if—

"(A) *

"(B) *

"(C) *

"(D) the proposed district has a district overall economic development program which includes adequate land use and transportation planning and contains a specific program for district cooperation, self-help, and public investment and is approved by the State . . . and by the Secretary;"

EDA believes that to achieve the broader geographical significance called for in Section 403(a) and to provide a meaningful overall economic development program with a specific program for district cooperation, self-help and public investment, the composition of the EDD board must represent the broadest possible spectrum of the District community.

For a district organization to develop a truly effective economic development program, all of the principal economic interests of the District must be allowed to participate in the development of that program. By permitting their participation in the process, their support for the resulting program is more likely to be forthcoming. Community support is a key to an effective economic development program. Thus, in addition to the elected public officials, EDA requires representation of business, labor, agriculture, minorities, unemployed and underemployed segments of the District.

The unemployed, underemployed, and minorities are primary targets of economic development activities of both the districts and EDA. Their representation is required to ensure that the program developed adequately addresses their particular needs. Likewise, the business sector plays a most significant role in all economic development activities and without its participation and support, an overall economic development plan would be meaningless. This same rationale also applies to labor and agriculture, although to varying degrees depending upon the nature of the district.

By requiring that these various sectors of the district economy be represented, it was hoped that the cooperation and broader representation called for in Section 403 would be enhanced and a more effective district economic development program would result.

EDA has also been cognizant of the direction provided by Congress, such as in the 1965 and 1974 Committee reports, that initiatives must come from the local level and involve a partnership between all sectors of the community—governments, business, and the community-at-large.

The Senate Public Works Committee in its Committee Report on the 1974 amendments to PWEDA, specifically singled out EDA planning efforts as noteworthy by stating:

"The Committee believes, however, that greater emphasis on economic development needs to be given in planning efforts at all levels—that is, planning that emphasizes the problems of unemployment and low family income and inadequate public facilities and seeks solutions to these problems through a continuing process of blending planning expertise with community consultation and leadership development.

"Much has been learned about planning over the past 20 years. It is now widely held that planning by itself does not bring about change. The planning process must involve the people being planned for. It must reflect their needs and goals. EDA has insisted upon this participation, particularly in the planning process undertaken by economic development districts."

Mr. LEVITAS. I would like to mention the situation in Georgia that has called this to my attention, although I understand it is not just in Georgia. What occurred there is that a number of years ago, long before OMB or HUD or EDA got involved in this, we had a State system of multijurisdictional area planning and development commissions which have worked unusually successfully, have been effective, have been accepted, and there have been, to my knowledge, no complaints from the local communities concerning the board composition, representation, and the like.

Is there a desire and intention on the part of EDA in developing this program and in making your legislative review to try, as far as is humanly possible, to maintain the integrity of these area planning development commissions which have worked effectively for a number of years?

Mr. HALL. Yes. Let me respond that the Gordian knot we are trying either to cut or unravel is the question of how we can develop, on the one hand, administrative and programmatic flexibility to take due account of legitimate interests in a whole range of different circumstances, State or local laws and practices, and, on the other hand, still maintain and support the basic principles in the statute that make good sense as far as public and other participation in the economic development policy boards.

That is of where we have to have some crossover between the two. My own view, Congressman, and I pick up on the remarks of Mr. Roe, is that, given the diverse circumstances and historical patterns of certain evolving governmental organizations and other institutions, it is very difficult to set down in concrete specific national guidelines that can be applied across the board. It is not even a question of putting a round peg in a square hole. It is a series of pegs that change shape all the time as the hole is changing shape all the time.

Mr. LEVITAS. I would like to commend you for that. As usual, my distinguished chairman, Mr. Roe, has put his finger right on the problem and the solution. One of the geniuses of our whole Federal system is the fact that every community, every part of the country, has different needs, and different problems that they have to solve. Where they have successfully dealt with one of these problems and have successfully solved it, it seems to me to be not only counter-productive but utterly ridiculous for us in Washington to say we are going to have you do it our way, even if the way they are doing it is working perfectly well. For that reason I would urge you to focus on the performance of existing organizations to see whether they are, in effect, accomplishing their objectives rather than applying standards which are unrelated to the performance. I think you will find that there is at least as much wisdom in the policy-

makers in municipal, county, and State government as there is in Washington.

Thank you, Mr. Chairman.

Mr. ROE. Mr. Clausen?

Mr. CLAUSEN. Thank you, Mr. Chairman. I am particularly interested in your concept of decentralization and what that embodies. With respect to the role you envision for the EDA regional offices, you state: "In conjunction with the EDR's, the regional offices bear much of the responsibility for working directly with applicants to provide EDA assistance to meet the often complex economic development problems of local places."

In working with EDR's and working with locally structured entities for purposes of addressing some of the unique and varying economic circumstances in a given area, how do you envision the working relationship between the regional office, through the EDR and locally structured economic development agencies, such as EDD's, or some other structured countywide organization, as would be the case under title IX. I am sure you are familiar with what I am referring to—how do you envision the role of the regional office and the personnel and their relationship to these local entities?

Mr. HALL. First, we don't see much changing in terms of the process, that is indeed the local community, the EDD or other potential applicant, who now deals primarily with an EDR, who subsequently develops the proposal and then works with the regional office. That same flow will still take place. Now with the team concept, rather than the EDR being out there alone, very alone, often without sufficient resources to deal with many of the complex problems that are presented by the local authorities, the EDR will have greater recourse and access to sit down with a mayor, for example, with technical assistance and loan experts. The EDR can be assisted by two or three of them to move forward developing a better project or projects.

Mr. CLAUSEN. How will that vary from the established role, for instance, of SBA loan specialists doing the same thing?

Mr. HALL. I am not sure I understand the question.

Mr. CLAUSEN. The Small Business Administration has people who are loan specialists, which offer advice and assistance to local officials with a local development corporation concept, or a direct loan to a business, or a participating loan with a banking institution. These specialists are already set up and structured. How would you envision it varies from that?

Mr. HALL. The difference is, of course, of those members of our team who are conversant and knowledgeable about the loans. Terms of loans would be consummated through EDA authorities and resources. We are trying, with a broader-based and knowledgeable team, to be in a position whereby the team could focus on the problems and the ideas and proposals for economic development projects that fit well into what EDA can and should do. We are very hopeful that the team would be in a position to direct potential applicants to SBA for the small loans, unless it is something that could be done under Farmers Home. As you well know, Congressman, one of the unsung stories of EDA and its EDR's is the amount of assistance that is arranged for economic development districts and local communities from other programs and agencies.

One footnote on that. As part of the business loan program, we have a responsibility not to fund business loans where the individual can get money on the general market—the figure I believe is some \$100 million of loans a year provided to potential EDA applicants who say they can't get money on the regular market. We ask why they don't go to a bank with which we deal. Frequently the bank will make a loan without a government guarantee. That non-Federal leverage doesn't show up in our records.

Mr. CLAUSEN. Well, this is a subject that would take a lot more time to pursue than certainly we have here.

I am very much interested in it, and let me give you an example of what I think we need to be looking toward in the way of a sense of direction. One of the more successful Federal Government programs that I have observed, that has stood the test of time, has been the Agriculture Extension Service. This has a broad level of acceptance in the agriculture field. I grew up with it. I have observed it firsthand.

The farm advisers advise people locally on what, in effect, are agricultural concerns and interests and problems, and I think if the EDA program is going to work, an EDR adviser, similar to the farm adviser, conceptually has the maximum opportunity for success, and I think many of the points you have made, Bob, do address the fact that the EDR, properly equipped, can, in fact, provide that kind of coordination and advice and counsel comparable to the Agriculture Extension Service. What you do is a leverage, as George has indicated; you use the EDA program as a vehicle for leveraging other aspects of the program under our own jurisdiction.

I have said many times in discussions on community facilities, transportation, all of the jurisdiction of this committee, if EDA is going to perform its role and its function adequately and properly, it must act in a coordinating role and advisory role, working within established infrastructure. It is important to avoid situations where you go in and preempt what, in effect, are the local autonomies who have the capability, and oftentimes all they need is advice, counsel, funds and cooperation.

So I just throw that out, and, Mr. Chairman, I think that one thing we need to do, and I am impressed with the statement particularly where you make reference to the fact you want to work with this committee this next year. That is a very important thing, and, Mr. Chairman, I am going to suggest along the lines of the discussion we have had, I think frankly we are going to need some form of field hearings with the kind of oversight, out in the country to make a determination as to which of the programs have, in fact, been successfully implemented. We also need to assess whether or not what is being accomplished down there in the agencies is finding its way out in the country as we anticipated by the legislation.

Mr. GINN. If the gentleman would yield, I certainly would concur in his recommendations and say to you now that we will plan to have some field hearings.

Mr. CLAUSEN. Thank you very much. I appreciate very much the testimony.

Mr. ROE. Mr. Nowak, from New York.

Mr. NOWAK. Thank you very much, Mr. Chairman, and Mr. Hall; welcome again to the committee.

I just wanted to add a few thoughts and comments on what I believe is fairly clear now. I guess the committee is suggesting that flexibility is perhaps paramount in looking at the membership of the boards if within that flexibility you can accomplish the purpose and the goal of the agency; a numerical standard of one-third private citizens on these boards may work very well in some communities, while in others, because of the structures and so forth, I guess you have found that it wouldn't work as well.

I suppose you are going to have to decide on the basis with case-by-case examination and use your own best judgment as to what can accomplish the purpose of the agency.

And I will leave that for your judgment at a later time, but I wanted to, first of all, compliment you on your statement, especially the so-called team concept approach.

I think when you get into reality, you go into the districts, you have found all over that the EDR per se cannot accomplish all of the broad ramifications of this act, much less advise the boards and the mayors of what other programs could be made available to them to accomplish the purpose and the goal that they are looking for, and I think through experience you have found that the EDR cannot serve the area.

I have maintained many times that, first of all, your mission is much too restricted, and, second, you don't have the dollars to accomplish the purpose, and, third, of course, you don't have the personnel to do a totally effective job in accomplishing everything that you are mandated to do by the Congress, but I am sure these problems will be considered in future authorizations.

Your team concept, I think, is one that is particularly attractive here because the EDR's, with as many people as they have to deal with, are unable to get into detail of each and every project, to evaluate it, and to bring about implementation under these circumstances. I just don't know how you have accomplished everything you have up to this point.

But with this team concept, you envision the EDR, I take it, getting a conceptual approach to the request from the mayor or board, and then, if it makes some initial sense to him, that would be the point when he would bring in the so-called team and go right into the district and talk even to the business people who are concerned with trying to accomplish a development goal. Is that correct? They are brought right in after the conception of the plan?

Mr. HALL. That is correct. Indeed, we would hope that we may be brought in on a specific project or issue. Since we are out there with a group of individuals, with wide backgrounds of experience and knowledge not only of our agency's programs but other agencies' programs, we can, in discussion with the local authorities, raise other opportunities and prospects that may have been overlooked on the part of the local officials.

Mr. NOWAK. You also touched on an important point about the civil service ratings on these jobs. To achieve good results, I would think you have to pick people with diverse backgrounds, with academic and practical experience, because they are going to have to know presumably more about not only the program, but certain-

ly the practicalities of the implementation, and I think you would have a sympathetic ear here if we could participate in emphasizing that those quality people are really needed in the agency for ultimate success. I hope you will bring that before us, too, in greater detail.

The moves you have made or are going to make regarding the new regional offices in San Francisco, the office in New York, you have got slated here for restructuring in June of 1979. I wondered if there is any possibility they could be moved up, because you indicate here throughout your testimony that you are trying to move more people into the district to have a greater impact, and I think that is paramount.

Would there be any possibility of moving that date up?

Mr. HALL. I do not believe so, Congressman. The June date is a function of several factors. One, it will take us between now and then to realine vacant positions to get the staff ready to open the new offices. We are, literally, squeezing the organization to get the positions.

The Office of Management and Budget gave us 16 positions to open four new regional offices, and it just cannot be done with four each. So we are through a process of turnover and realignment of vacant positions, building up sufficient staff to open up the new regional offices.

Second, we are not only expanding, but we are undergoing reorganization. We want to do careful, phased work in order to accomplish both simultaneously, and that will take some time as far as the regions are concerned. Then, of course, we are trying to absorb Washington office reorganization over the next 2 months.

Mr. NOWAK. Let me just reemphasize the remarks made by the chairman relating to the colloquy we had on the floor with the Appropriations Committee chairman concerning the somewhat limiting language that was put in on the appropriation bill. I think the flexibility that was indicated really flies in the face of some of the language in the report. I hope you will have an opportunity in the near future because I think it does give you the flexibility you need to accomplish your mission, so I hope you will be able to look at that closely.

I think it helps and especially in programs like title IX where you do not know whether a base is going to close or you do not know what applications you are going to receive.

Mr. HALL. Or in the trade adjustment area.

Mr. NOWAK. Or the trade area, to put in a limitation to regions. It just defeats the whole purpose of the act.

Thank you very much, Mr. Chairman.

Mr. ROE. Thank you, Mr. Nowak.

The Chair recognizes the gentleman from Minnesota, Mr. Stangeland.

Mr. STANGELAND. Thank you, Mr. Chairman.

To open, let me request a little bit of background so I am sure we are talking about the same things. How many States are there in the Chicago region just to give me an idea of this region's configuration.

Mr. HALL. Six: Indiana, Illinois, Ohio, Michigan, Minnesota, and Wisconsin.

Mr. STANGELAND. How many EDR's are in Minnesota?

Mr. HALL. Two—there is an office in Duluth and one in St. Paul. Originally, Congressman, the agency had a regional office in Duluth. Several years ago they moved the Duluth regional office to Chicago and a small cadre was left there?

Mr. STANGELAND. Could you tell me what the function of an EDR is and specifically, if one of the EDR's in Minnesota might be a Stan Pechaver?

Mr. HALL. Yes.

Mr. STANGELAND. Isn't he an EDR?

Mr. HALL. Yes. He is located in St. Paul.

Mr. STANGELAND. How do the EDR's function, say in the case of Minnesota, with the State planning agency? Back in 1969 we passed the Regional Development Commission Act which divided the State into regions for development purposes. They were planning commissions. How does the EDR work with the State planning agency and with those local regional development commissions?

Mr. HALL. I had the opportunity to be in Duluth almost a year ago now, and in my conversations with Jack Arnold, the EDR, he appeared to be very knowledgeable in terms of what was going on at the State level, with the State planning agency. He said he spent quite a bit of time in meetings with them. It is part and parcel of his role to see how EDA investments could meld and match the kinds of things the State was planning to undertake, as well as working with the local communities.

Mr. STANGELAND. We have the Upper Great Lakes Regional Commission, the headwaters commission, and six West, in my district. In designating these economic development districts would our economic development planning commissions qualify as districts? I think we have 10 in the State of Minnesota.

Mr. HALL. I think theoretically they can. I will ask Mr. Hausner. I am not familiar with the makeup of the State planning commissions you talk about.

Mr. HAUSNER. Congressman, we have designated districts in the State of Minnesota using the structures the State has established. The question of whether or not we can designate one of the commissions depends on the economic statistics regarding the particular commission. That is, they would have to have at least one county which was a redevelopment area designated as a result of certain levels of distress such as underemployment or out-migration, and the preparation and approval of an overall economic development plan. Such a commission could be designated under our program as an economic development district. We have, in fact, designated four such districts in Minnesota.

Mr. STANGELAND. I would hope that in your reorganization program you would look to those States who have developed regional development commissions, because I think the basic purpose of those commissions was to let local people determine what their needs were to justify a responsible funding of projects. EDA has done a lot of good work in my district, and I am aware of it. Mr. Stan Pechaver has done a good job. Nevertheless, I would like to have you take a look at the requirement of your board of directors for EDD's, as I gather most of our regional development commis-

sions would not be eligible due to our State law requiring that the board of commissioners which govern that regional development commission be locally elected officials.

In Minnesota, if there are 10 counties in a region, there is one county commissioner, one town officer, one mayor, one school board member, whatever, making up the commission which governs that region.

To say that the board membership has to be only a simple majority of elected public officials and that the rest must be made up from the private sector would disqualify our regional development commissions from becoming EDD's. It is my feeling if the Federal Government has a Federal responsibility for economic development then, too, the State government has a responsibility and so does the local government, who and really has the major responsibility.

If we need public input we ought to be getting input from advisory commissions instead of letting them be the governing bodies. I would like to point this out to you when you consider areas for EDD's. I do not know if the regional development commissions in Minnesota are large enough to qualify for EDD's and I do not know if they all qualify under the requirement you have for a redevelopment area, but certainly as far as economic development is concerned, I think they are legitimate and justified.

I would like to make that point as it affects Minnesota, and I do not know how many other States are organized that way. But as you reorganize, I think you can avoid a great deal of duplication by utilizing a structure that is in place and working along the same lines the State is working on.

I would like to ask, how many positions did you start with on the local public works program? I believe you had a number of temporary positions there that were put in line when the LPW program was implemented.

Mr. HALL. Yes. I believe we had a 500 plus end-of-year ceiling for 1977, which then went down to—the numbers are elusive. We can supply that for the record, but let me tell you we are phasing down rapidly on the temporary LPW personnel as the program starts to phase out.

I should point out to this committee, as I think I have in the past, that it was not just implemented with the LPW temporary personnel. At times we had up to 50 percent of the regular agency as personnel working on the LPW program. We just had to do it last summer to move that \$4 billion.

Mr. STANGELAND. As you provide us with the number you started with, you also might provide us with the number that are still on board.

Mr. HALL. Yes.

[The following was received for the record:]

SUBMISSION FOR THE RECORD

By October, 1977, EDA had hired 525 people nationwide to administer the LPW program. The present staffing level is 350 people, and it is expected that level will decline to 170 people by September 30, 1979.

Mr. STANGELAND. How many positions did you anticipate you would need for the LIPW program?

Mr. HALL. We will supply that for the record.
[The information received follows:]

EDA SUBMISSION FOR THE RECORD

EDA estimated that approximately 225 positions would be needed to administer the LIPW program during its first year. Staffing levels for the second and third years may increase in order to process and monitor Action Plans and project applications.

Mr. STANGELAND. I think, Mr. Chairman, that would conclude my questions, but I do thank you gentlemen for your testimony and look forward to working with you. As I say, I can point to many good EDA projects in my district. They have been beneficial to the communities, and really I think in the rural area have given us much support. In addition, we appreciate the kind of service that Mr. Pechaver has shown us up in northwest Minnesota.

Mr. HALL. On the part of the agency, I thank you.

Mr. ROE. The Chair now recognizes our great and unopposed statesman from Georgia, Mr. Evans.

Mr. EVANS. Thank you, Mr. Chairman.

I would like to join my colleagues in welcoming you, Mr. Hall, and your colleagues to this hearing. I have questions which basically get to three areas, that is, the area of underemployment, the area of assistance to rural areas, and technical assistance moneys. First, I would like to join with my colleague, Mr. Ginn, in expressing concern about the underemployed areas. When we were considering the distribution of moneys under the second round of the local public works, there was testimony that the statistics on underemployment were less than satisfactory in formulating formulas for the distribution of money.

First, I would like to ask if there have been substantial developments in the area of coming up with statistics which can be used in better distribution of money and giving way to the underemployment in areas.

Mr. HALL. I would like to ask Mr. Hausner to respond. I was involved with the development of the criteria for the National Development Bank. To respond in general, the problem of measuring underemployment to be reflected in Government allocation efforts still exists, and it is complicated, as you can well appreciate.

I would also suggest that one might even say the measurement of employment and unemployment is deficient in many respects in terms of social programing, but Mr. Hausner can describe some of the thinking that went into the development of the eligibility for the National Development Bank.

Mr. HAUSNER. Congressman Evans, I think it is the case that the desire of the Federal Government to implement programs has far outstretched its ability to provide statistics to support many of those programs, and this is no less the case in economic development.

Regarding the National Development Bank, as well as EDA's own title IX long term economic deterioration program, we have attempted to strengthen the figures on low income, poverty, and underemployment. There have been some substantial improvements in statistics-gathering.

As you know, the formula for the bank does take into account underemployment, and there is some discussion of further attempts to improve that formula. But I second the Assistant Secretary's comment regarding underemployment. We have tried to make the best use of whatever data there are to strengthen it. It is clear that it is desirable to be equitable to areas that have a bigger underemployment problem than unemployment problem. Unfortunately, we do not have information as good as we really need in order to make the best distribution of resources.

Mr. HALL. If I may add, Congressman, the report from the National Commission under Sar Levitan's direction will be coming out very shortly with some very interesting recommendations in this area for the Congress to contemplate. We have shared with him our concerns and our problems. I know his staff has looked at, for example, the LPW issues of which you speak, but this is an area I would hope we can improve for EDA purposes.

Mr. EVANS. Along that same line, in your testimony you do refer to having broad representation of several groups including underemployed. Would it be correct if this indicates a continuing commitment on the part of your agency to continue and try to perfect the factoring in of underemployed in your formula distributions of various funds?

Mr. HALL. Yes, absolutely. Indeed, we feel that this agency and its programs are probably the major Government program to deal with underemployment. Most of your other programs deal with unemployment; that is, an individual has to be separated from the active work force. Indeed, the genesis of our program is to try to create economic opportunity and jobs. We work in rural areas such as your congressional district, and we like to create full-time, well-paying jobs that deal with underemployment. We can move individuals up the ladder, not just from the unemployment rolls, into these jobs by providing upward economic mobility for the underemployed. Then some of the unemployed could move into jobs currently held by the underemployed. That may be not as good as being fully employed, but at least it is one rung up the ladder.

Mr. EVANS. I certainly commend the agency for moving in that direction and would like to also ask about the budget for 1979. I believe the request was for some \$666 million, and the Congress approved \$587 million. Statements were made by the agency, and I do not recall who made the statement right offhand, that no one would get hurt to the extent that neither the rural nor urban areas would get hurt. I know that urban areas, according to the administration and others, will be receiving additional money under the economic development programs.

With this reduced figure of \$587 million, would the agency stand by that to the effect that rural areas will not be receiving less money, that they also will be receiving additional moneys?

Mr. HALL. Yes. We kept the proportional balance we anticipated under the full budget and applied it to the reduced level of funds. I just want to point out that in fiscal year 1977, \$214 million was spent in rural areas, and we are going up to \$305 million in fiscal year 1979. This is an example of the absolute level of increase.

In fiscal year 1979 overall, we anticipate that 52 percent of the funds will be for rural areas and 48 percent for urban areas.

Mr. EVANS. Thank you.

One other question dealing with technical assistance. Could you give me the figure that would be used for technical assistance which was used in fiscal year 1978 and what will be allotted to technical assistance in fiscal year 1979?

Mr. HALL. Yes. In fiscal year 1978 it was \$31,550,000, and in fiscal year 1979 it is \$34,580,000. I would like to put those figures in juxtaposition to what the agency had in fiscal year 1977, which was only \$12,500,000. This shows our concern and thrust in building up local capacity to mount and manage good economic development programs.

Mr. EVANS. I, too, not clearly to the extent of Mr. Ginn—occasionally I try to give my people projects, and we have made some inquiries with the agency about technical assistance funds to be applied during fiscal year 1976, and we are advised that the funds were pretty well committed. Have there been commitments made for the fiscal year 1979 funds, and are there funds available for technical assistance to economic areas?

Mr. HALL. I would be very surprised if anybody indicated to you on behalf of the agency that by the 13th day into the fiscal year the funds were committed. I am sure there are some projects left over from the latter part of last year. There are some on the front burner for this year, but there should be uncommitted and available TA funds that the agency can use over this fiscal year.

Mr. EVANS. That certainly makes my day. I appreciate it.

Thank you, Mr. Chairman.

Mr. GINN. Would the gentleman yield for one brief observation?

I want to commend the gentleman for emphasizing the subject of underemployment. He and I have discussed it on many occasions, and I also appreciate your forthrightness in admitting that we do seriously need to improve our system for determining unemployment and underemployment figures.

I would say to the gentleman from Georgia that the Subcommittee on Investigations and Review will, as early as possible, get Dr. Levitan over here for a day or two of hearings on this very subject, and we appreciate the gentleman from Georgia working with us on that subject.

Mr. ROE. Thank you, gentlemen. I would just like to make another observation. In urban areas I think we have pretty well come full circle. What is the agency planning now as it relates to establishing your economic development districts in urban areas?

Let me add another point to that. In regard to what has made the EDD successful, one thing I observed in the rural areas is the fact it is a relatively small operating organization and it is immediately responsive to the service areas it is handling. You have a good blend. However, when you apply regional thinking to a manageable urban area, the solution is more complex. When we start looking at COG's planning agencies being established, such as tri-state, it is totally ineffective. I am very knowledgeable on that issue. Gargantuan regional commissions are ineffective to meet the kinds of needs a hard-hitting local regional agency must achieve to get into where the problem is.

What is your thinking in that direction to be more effective in urban areas?

Mr. HALL. I think you have put your finger on some of the realities in working in the larger urban areas and the difficulties of size, population density, government complexity, and other institutional factors that are at work in urban areas. These are not unique for us. It goes across the board to any government program and, certainly not last nor least, to the local government itself.

For example, in New York City we are trying to get some sort of rational economic development process going. We have OEDP's approved for three of the five boroughs. When you look at the boroughs of Brooklyn and Queens, you are talking of an entity of 2 to 3 million people. For example, in the New York City area the best we think we can do at this point is to try to develop some informal, coordinated structures locally based, locally agreed to, and locally managed that would give us a better handle.

In large cities, we are trying to coordinate for the larger metropolitan areas—you cannot ignore dealing with the whole metropolitan area. The labor market and economy of New York, for example, do not stop at Westchester or the Nassau County line or the Hudson River. They are interrelated with the northern counties of New Jersey and counties of Nassau and Suffolk and the State of Connecticut.

We have a pilot metropolitan planning effort underway. If we can, through this pilot effort, just get the parties talking to each other, exchanging information and perhaps working in a couple of areas where they can cooperate, we will have made a few steps forward.

However, you are absolutely correct, Mr. Chairman. These are not EDD's in rural Georgia or rural Arkansas. It is manageable and will be the challenge of the agency in years ahead. If I can summarize the Lyndon Johnson expression, if you can get your arms around folks, then you can get a consensus of what to do and get some movement.

Mr. ROE. Over the past year these metropolitan regional planning organizations have grown up and they have been funded either from HUD or a combination of HUD money and ad infinitum.

Now that some of the management and programing of Federal-aid programs is going to shift, which is exactly what you are doing, going to States' regional areas and getting government closer to the people, some of the funding that was going into some of these regional organizations for planning is going to dry up, and we begin to see some national organizations with vested interests—which I do not fault—going to put the arm on EDA as we begin to build resources at EDA to say, you are drying up our HUD planning money, now we want to get it out of EDA.

I think it has been expressed earlier by all the members here that we are not planning for planning's sake. We want to try to adopt what you have been successful in doing in hard-hitting operations in rural and subrural areas and apply that technique to urban areas. I know there is a lot of thinking to go into that.

I speak for my State now. We do not want to see New York Tri State planning economic development, by any stretch of the imagination, in that area known on the other side of the river as New Jersey and Pennsylvania. Otherwise the effectiveness you are

trying to work with—we have tremendous high levels of underemployed—economic opportunities will never merge into smaller cities, for example, in my State. In all due candor, when we concentrate on the north in Tristate, we found we could not get anything done in the northern part of New Jersey without somebody in New York deciding what they thought we ought to be doing. I am hoping, as you develop the urban strategy, that will be dimensionable too. New York is a classic to itself, and so is Chicago and maybe Los Angeles.

Let me add this point. If you look at a state such as mine, as I commented to the good folks in Savannah, we are the most urban State in the Nation. Of the 567 communities and 21 counties, there are only about 3 percent that could be considered urban. So we have dimensionable, workable cities.

Ninety-eight percent of New Jersey is rural, in effect, small towns. So I hope, as we continue our exchange of dialogue on this whole reorganization, that we begin to hammer in a short-range relationship now as to what can be done in those urban States to make it dimensionable and make it work. So I would like to see—not today, of course, but as you develop your strategy—something going to merge in that direction. I do not believe New York City is necessarily the basic criterion to the urban center problem.

I would like to thank you very much. I think you have added a great deal of insight. Your testimony has been splendid, very comprehensive. I think you struck right at the heart of what the committee has been concerned about. You have been very forthright in your answers. I think you have allayed a lot of concerns here today. We are pleased with your presentation.

I think you answered a great many questions, and hopefully we will continue this dialogue, because as we start to meet early in the year and start to reconfigure the EDA legislation, we do really seek out your input. And I am highly encouraged by your observations, Mr. Secretary, that instead of going along in the traditional way—a little patch here and a little patch there and another sentence and paragraph—to look to the broader economic challenge, the whole economic international trade situation. There is no reason why we cannot take on reverse investment between respective countries and the United States. I think these are all things that are going to merge, in part or in whole—foreign holding companies, things of that nature, too. All of that will be helpful to us.

I want to thank my good friend Bo Ginn, who is the distinguished chairman of our Subcommittee on Investigations and Review, for all of his efforts in coordinating this hearing this morning. I think it has been very helpful to us.

I just want to make one more admonition, if I may. We would like to have, at the earliest possible date, your thoughts and projections for modifications in what you see in EDA legislation. I caution you for a very important reason. It seems that we have noted in the last couple of months that, in assigning jurisdiction which is specifically assigned in our judgment to this committee, that there have been certain bills and proposals that have come in here that were amendments to EDA that were sent to other committees.

I would not want to see our economic development program fall apart because of parliamentary procedures or political machinations, so the quicker we are given your views and recommendations, so that we can get to work on expanding our EDA legislation, the better. It will be very helpful to us.

Mr. HALL. We would appreciate very much the opportunity to sit down with you very shortly and have good discussions on our thoughts and ideas.

Of course, in developing the legislative package, you are well aware this is a process that proceeds this fall for the administration to determine a final package. However, speaking personally as well as for EDA, we would like very much to have your guidance and counsel as we make our recommendations to the administration.

Thank you.

Mr. ROE. Mr. Ginn.

Mr. GINN. Mr. Chairman, I want to thank you for your enthusiasm for rural areas. I think the trip to Savannah did you a lot of good.

I want to not only thank you, but thank Mr. Hall and his associates for their appearance here this morning. It has been very informative and enlightening, and we do look forward to working with you in the coming months.

Mr. ROE. I ask unanimous consent at this point in the record for all members to have an opportunity to submit any questions they choose to, to the Secretary in writing for the record.

Thank you very much for being with us.

The hearing is adjourned.

[Whereupon, at 1:20 p.m., the joint subcommittee adjourned.]

[The following additional information was supplied for the record:]

The following questions (with answers provided) were submitted to EDA by Rep. Oberstar following the hearing.

Question 1. What new positions will be created at existing Regional Offices (Chicago)?

The reorganization does not add any positions, but some of the existing positions will be changed. Listed below are the titles and grades of the positions we expect to be in the average regional office. The eventual make-up of the Chicago Regional Office will substantially include the following positions. An OPCS officer will be added, but this is not part of the reorganization.

- Regional Director (GS-15/16)
- Deputy Regional Director (GS/14/15)
- Regional Counsels (GS-13/14)
- Civil Rights Specialists (GS-12/13)
- Environmental Specialist (GS-13)
- Administrative Officer (GS-9/11)
- Regional OPCS Officer
- Terminal Operator (GS-9)
- Chiefs, Public Inv. Div.
- Chiefs, Private Inv. Div.
- Chiefs, Special Public Works Div.
- Senior Financial Analyst (GS-13)
- Senior Engineer (GS-13)
- Senior Economic Development Specialists (GS-13)
- Financial Analysts (GS-5/12)
- Engineers (GS-5/12)
- Economic Development Specialists (GS-5/12)
- Compliance Managers (GS-11/12)

Secretary/Stenos (GS-6/7)
Clerk-Typists (GS-2/4)

NOTE: The grades in parentheses represent a probable range of grades for these positions, based on preliminary functional statements prepared for New York and Boston in June 1978, and are not to be considered definitive.

Question 2. How will the application review process within regional offices be improved and expedited by the reorganization?

By placing more authority in regional offices for approval of applications, we will be removing one layer of approval processing. In addition, we expect that better teamwork within regional offices will result in improved processing procedures.

Question 3. How will the reorganization affect the allocation of EDA funding to the existing regions?

There will be no effect on allocations to existing regions.

The following questions (with answers provided) were submitted to EDA by Rep. Ginn following the hearing.

Question 1. A document entitled "Budget Estimates Fiscal Year 1979 as Presented to Congress" was the base document from which the House and Senate Appropriations Committees worked to prepare EDA's 1979 budget. On page 1 of that document is an organizational chart. Does that chart represent EDA as it has existed in the recent past, or is it the way it will look when the reorganization is completed? Why didn't you include a chart that would have enabled a comparison to be made between what EDA has been organizationally and how you propose to change it?

The Organization Chart at the front of the FY 1979 Budget Justification was current at the time the Budget was submitted in January, 1978. At that time, the plans for reorganization were only beginning to take shape. It was only eight months later, in September of 1978, that these plans were put into final form with OMB approval; at that time they were transmitted to the Congress.

Since the reorganization has not yet taken place, the chart presented last January still represents the organizational structure of EDA. Organization charts depicting the proposed organization were attached to the prepared statement of Assistant Secretary Robert Hall and have been included in the record of this hearing. We expect to implement the reorganization of the Washington activities on or about December 1, 1978, and of the field activities on or about June 1, 1979.

Question 2. I understand the EDRs already have lost some of their assistants and their secretarial help. Please provide for the record the total number of persons currently employed in EDR offices nationally, what the figure was at this time a year ago, and what the total number will be when your reorganization is complete. How many EDR's, if any, have already been moved to regional offices?

The EDR's have not had secretarial assistance since 1972 when a previous Administration proposed a phasing out of the EDA program. We were able to start hiring Assistants for the EDR's in FY 1975 and there are now 34 on board.

A comparison of current employment in the EDR offices one year ago, is as follows:

	Oct. 20, 1977	Oct. 20, 1978
EDR's	51	51
Assistants	38	34
Total	89	185

¹ Lower employment figure at present is due to attrition; limited employment ceilings have restricted EDA from rehiring.

No EDR's have been moved to the regional office nor will they be moved under the proposed reorganization. This means that when the reorganization is complete the 51 EDR's will still be located in EDR offices. As mentioned in my prepared statement, employment ceiling restrictions may require us to move some of the Assistants into the Regional Offices to fill some of the positions in the Economic Development teams. This number has not been established since those EDRs located long distances from their Regional Office headquarters would, in all likelihood, retain their Assistants. You may be assured that no Assistant will be offered a position a grade lower than his or her existing grade level if he or she is asked to move to the Regional Office.

Question 3. In your 1979 budget request in the appropriation summary of District Activity (on page EDA-18), you said, "EDA, as part of its new initiatives, intends to

reexamine both the District and growth center concepts through further evaluation and funding of demonstration grants." Please describe, with examples, what you intend to reexamine and evaluate and what your objectives are?

EDA's planned reevaluation of the concepts and of the effectiveness of the Economic Development District program and of growth centers is multi-faceted. Its framework will be determined in large measure by the findings under a contract the Agency made last January (with Abt Associated, Inc.) to study the effectiveness of EDA planning program in general, but with a specific focus on the District program.

It will be accompanied by the new assessment system which will be, in effect, a strengthening of EDA's appraisal program, which involves on-site evaluation of grantee performance in the planning program.

Primary concerns of the planned reexamination will be to determine effectiveness of Districts in general and of growth centers in particular in:

Their commitment to, and success in, the creation of permanent, full-time jobs in the private sector for the unemployed and underemployed of the District's Redevelopment Area(s);

Success in leveraging private sector involvement in the work of job creation (and job preservation);

Planning and action in behalf of the general improvement of the economic development infrastructure of the District and Center; and

Promoting a sense of district-wide cohesion and cooperation.

Among the goals of the examination will be to ascertain the effectiveness of EDA's role in regard to Districts and growth centers. One specific point will be to study whether EDA's public works and business loan commitment to Districts and Centers, which has remained relatively constant since the inception of the program despite the almost constant growth in the number of Centers, has not thwarted, in some degree, fulfillment of the goals of Section 403 of the Act.

Question 4. When you say are reserving monies for performance grants in the districts, what type of performance are you talking about? What units of measurement are you going to use to determine that one is performing better than the other?

We seek, through the use of performance supplements, to foster district work program elements designed to strengthen:

Basic analyses of the district economy and its relation to larger regional and national economies;

The link between (1) analyses of the district's economy and the development potential and (2) the programs, activities and projects which are the products of the planning and development process of that district;

Follow-up activities to obtain continued or increased economic benefits from prior economic development investments and capacity-building efforts; and

Activities to foster the support and participation of the private sector, community organizations, and labor and minority groups in development and implementation of the district's OEDP.

Supplemental fundings, therefore, will be tied to identifiable increases in the capacity of development organizations to address specific economic development concerns of the district. In each case, measurement of performance will be made in terms of the district's achievement of specific program elements for which the supplemental funding was provided.

Selection of districts to receive supplemental funding will be based on EDA's expectation of success in achieving funding objectives. Contribution toward EDA's overall program goal of strengthened institutional capacities is of primary importance, which means that anticipated results are more important than past performances.

Question 5. EDA has performed better than any other agency in the distribution of public works funds with fewer employees. What assurance is there that the proposed reorganization will be more effective than what now exists?

A number of developments dictate a more effective and somewhat realigned organizational structure.

EDA's mission has expended considerably in the last few years. In fiscal year 1977, the public works budget was \$196.6 million; in fiscal year 1979, that sum is \$228.5 million. In fiscal year 1977, the Title IX budget including long term economic deterioration (LTED), was \$77 million; in fiscal year 1979, LTED alone is \$44.7 million. EDA's traditional way of "doing business" clearly cannot withstand the new demands being made on the Agency.

EDA is attempting to package its programs so that communities are better able to utilize EDA assistance. It is therefore reasonable that all investments

the Agency makes to public bodies be housed under one roof, rather than being scattered throughout and applied to places on a piecemeal basis.

As EDA's budget and authorities expand, there will be a continuing need to decentralize project processing and approval authority to the Regional Office. We believe that the field is the proper place for this to occur because it has a clearer understanding of local needs. Policy guidance will, of course, be given from Washington.

EDA's past performance with public works projects in terms of its procedures will be affected by reorganization only in so far as some project approvals are concerned. In those cases, the Regional Director will have approval authority, an authority which will facilitate even more the expeditious processing and approval of proposals. There in nothing in the reorganization proposal which would adversely affect efficiency.

Applicants will still go to EDR's for initial assistance and the Regional Offices will still have major responsibility for decision-making on projects.

Question 6. EDA objectives are clearly spelled out in the legislation which calls for public works, technical assistance, district planning, and business loans. It gives every community who has a need the opportunity to get these funds. Is there a danger that the program is being overcategorized with such new programs as CEDS, MEDS (Minority Enterprise Development Strategy), the Office of Special Projects, and so forth?

The suggestion of overcategorization through initiatives such as CEDS, MEDS, and the Office of Special Projects (OSP) would be fair if these were actually "programs" in the same sense as EDA's public works, technical assistance, district planning and business loan programs.

On the contrary, the CEDS, MEDS, and OSP initiatives are neither "programs" nor especially "new".

The CEDS is a limited demonstration effort which is simply testing improved methods of carrying out EDA's basic legislative mandate. Indeed, a primary purpose of the CEDS is to find ways of decategorizing EDA programs so that localities can more easily match EDA assistance to their own, unique needs.

The results of the demonstration—similar to the results of many other past and ongoing EDA demonstrations—will most likely be revisions in current administrative guidelines and procedures. These revisions will not affect EDA's basic program content or eligibility standards—which are set by law. Rather, they will focus on improved OEDP (planning) requirements and project development procedures.

The MEDS, or EDA's minority economic development initiative, is not a new or separate program, either. This initiative simply makes formal and more manageable what EDA has been doing all along—assuring that an appropriate share of funds are used to help disadvantaged minorities. For years, EDA has been aiding districts, counties and cities with sizable minority populations. MEDS simply sets moderate target goals for minority economic development in each of our program categories in order to assure that we fulfill a fundamental objective of our legislation—helping the structurally unemployed and underemployed—as well as our ongoing civil rights responsibilities.

Finally, the establishment of EDA's Office of Special Projects was designed to give more focus and emphasis to an important element of EDA's program effort—assistance to non-profit, community-based organizations in urban and rural areas. For years, EDA has been assisting such organizations to plan and undertake economic development activities. A Washington focal point will assure that this activity works in harmony with EDA's assistance to governmental units and is carried out in tandem with other program objectives. It is not a "new" program. OSP has its roots in the EDA law itself, which requires the Agency to address the problems of places and people in distress.

Question 7. EDA begins this fiscal year with a \$587 million budget. How much of that budget will be controlled by the Office of Special Projects? What is the Office of Special Projects? Who heads it? How long has it been in existence?

Question. How much of that budget will be controlled by the Office of Special Projects?

Answer. The FY-1979 Office of Special Projects (OSP) budget is \$50 million or 8.5 percent of the total EDA budget of \$587 million. The budget is divided into the following allocation: (amounts are in thousands)

	Public works	Business development	Technical assistance	Title IX		Total
				LTED	Revolving funds	
OSP regions.....	26,250	6,000	1,250	3,000	0	36,500
OSP headquarters.....	5,250	2,000	1,250	2,000	3,000	13,500
Total OSP allocations.....	31,500	8,000	2,500	5,000	3,000	50,000

Question. What is the Office of Special Projects?

Answer. The Office of Special Projects is a staff office of the Assistant Secretary for Economic Development. The office provides advice and direction for development and implementation of innovative economic development programs providing assistance to special areas and groups and selected urban areas; and develops and implements strategies, procedures and projects dealing with special areas such as: Mexican-American Border region, Puerto Rico, American Samoa and special groups identified by the Assistant Secretary for Economic Development.

Special Projects are projects which: (1) (a) Are sponsored and carried out by community-based, non-profit organizations that are not units of general purpose local government; or (b) Are sponsored, developed or carried out by an Economic Development District in cooperation with a community-based, non-profit organization;

(2) Provide jobs or other direct economic benefits to chronically disadvantaged population groups and/or distressed local areas;

(3) Are planned in accordance with overall local economic development program or investment strategy; and

(4) Are carried out in coordination with city or rural development institutions.

Question. Who heads the Office of Special Projects?

Answer. The Office of Special Projects is headed by a director who reports and is responsible to the Assistant Secretary for Economic Development. The director's name, address and telephone are as follows:

Curtis R. McClinton, Director, Office of Special Projects, U.S. Department of Commerce, Room 7830B, 14th and E Streets, N.W., Washington, D.C. 20230 Tel: (202) 377-5751.

Question. How long has the Office of Special Projects been in existence?

Answer. The Office of Special Projects was created on June 1, 1977 with the approval of Department Organization Order 45-1, Amendment 3. Subsequent to June 1 the staff was assembled and trained, the program directive was prepared, operational procedures were developed and outreach to regional offices and prospective program applicants was conducted. On March 17, 1978 the Special Projects Program Directive No. 17.01-1 was approved and the program officially started.

Question 8. So far, how much money has been approved, obligated or committed to community-based non-profit organizations? Where in the EDA budget goes this money come from? Please supply for the record a list of these recipient non-profit organizations?

Answer. Since the Special Projects Program has been operational, \$28,075,741 has been obligated to community based, non-profit and nongovernmental organizations.

Question. Where in the EDA budget does this money come from?

Answer. The Special Projects Program allocation is a set aside of the regular EDA allocation for program tools including: Public Works, Business Development, Technical Assistance and Title IX. In FY-1978 the program tools from which funding was set aside also included Planning. However, in FY-1979 no Planning set aside was included in the allocation.

Money for FY-1978 Special Projects funding came from the following allocation. (amounts in thousands.)

	Public works	Business development	Technical assistance	Planning	Title IX	Total
OSP regions.....	16,777	2,875	1,088	0	3,260	24,000
OSP Headquarters.....	1,986	0	650	1,000	2,364	6,000
Total OSP allocations.....	18,763	2,875	1,738	1,000	5,624	30,000

Request. Please supply for the record a list of these recipient non-profit organizations.

Response. A list of community based organizations which participated in and received funding from the Special Projects Program in FY-1978 is attached.

COMMUNITY BASED ORGANIZATIONS WHICH PARTICIPATED IN THE SPECIAL PROJECTS PROGRAM IN FISCAL YEAR 1978

- Foundation for Community Development, Inc., Cayey, Puerto Rico
 Las Flores Metalarte, Inc., Coamo, P.R.
 Cooperative de pescadores el Sante Cristo de la Salude, Penuelas, P.R.
 Oklahoma City Urban Renewal authority, Oklahoma City, Okla.
 Local Redevelopment Authority of Lawndale, Chicago, Ill.
 American Indian Business Development Corp., Minnesota, Minn.
 Little Havana Development Authority, Miami, Fla.
 The Neighborhood Institute, Chicago, Ill.
 The Academy for Contemporary Problems, Columbus, Ohio
 American Association Minority Enterprises Small Business Investment Corp., Washington, D.C.
 Society of Industrial Realtors, Washington, D.C.
 Opportunities Industrialization Centers of America, Inc., Philadelphia, Pa.
 Manpower Education Institute, New York, N.Y.
 Harlem Commonwealth Council, Inc., New York, N.Y.
 Philadelphia Opportunities Industrialization Center, Inc., Philadelphia, Pa.
 San Juan Community Development Corporation, Hato Rey, P.R.
 Domestic Systems, Inc., Huntsville, Ala.
 Institute of Cultural Affairs, Chicago, Ill.
 Border Industrial Development, Nogales, Ariz.
 Guadalupe Organization, Inc., Guadalupe, Ariz.
 East Palo Alto Economic Development Council, Inc., East Palo Alto, Calif.
 South Central Economic Research and Development Association, Lynwood, Calif.
 Southern Nevada Economic Development Council, Inc., Las Vegas, Nev.
 Oklahoma City Northeast, Inc., Oklahoma City, Okla.
 Paso del Norte, CDC, El Paso, Tex.
 Inner-City Business Improvement Forum for Clipper International Corp., Detroit, Mich.
 Inner-city Business Improvement Forum, Detroit, Mich.
 Delta Foundation, Greenville, Miss.
 Opportunities Industrialization Center of Rhode Island, Providence, R.I.
 People's Involvement Corporation, Washington, D.C.
 Central Vermont Economic Development Corporation, Barre, Vt.
 Economic Development and Industrial Corporation of Boston and Community Development of Boston, Boston, Mass.
 Boston Economic Development and Industrial Corporation and Community Development Corporation of Boston, Boston, Mass.
 Greater Philadelphia Community Development Corporation, Philadelphia, Pa.
 Martha's Vineyard Shellfish Group, Oak Bluff, Mass.
 Opportunities Industrialization Center, Inc., Atlanta, Ga.
 Morris College, Sumpter, S.C.
 Inner Cities Development Foundation, Miami, Fla.
 Delta Pace Foundation, Pace, Miss.
 Santee Production and Marketing Cooperative Subgrantee of town of Kingtree, S.C.
 Fifth City Industrial Promotion Corporation, Chicago, Ill.
 Chicago Economic Development Community, Chicago, Ill.
 Minnesota Valley Growers Development Corporation, Appleton, Wis.
 Black Economic Union, Kansas City, Mo.
 Union Sarah Economic Development Corp., St. Louis, Mo.
 Northwest Montana Human Resources Development Council, Lincoln County, Mont.
 Denver Community Development Corporation, Denver, Colo.
 Butte Local Development Corporation, Butte, Mont.
 Economic Resources Corporation, Los Angeles, Calif.
 Asian-American Economic Development Enterprises, Los Angeles, Calif.
 Economic Resources Corporation through Los Angeles County, Calif.
 Calexico Community Action Council, Calexico, Calif.
 San Bernardino Westside Community Development Corporation, San Bernardino, Calif.
 Paramount Theatre for the Performing Arts, Inc., Austin, Tex.
 Clark County, Industrial Development Corporation, Clark County, Ark.

Fort Worth/Tarrant County Community Development Fund, Fort Worth, Tex.
Greenwood Chamber of Commerce, Tulsa, Okla.
Galveston Historical Foundation, Galveston, Tex.

Question 9. Earlier this year, EDA announced its so-called CEDS program, CEDS being an acronym for Comprehensive Economic Development Strategies. A list of 37 cities, economic development districts, development and planning commissions and Indian reservations were identified as candidates for participation in the CEDS program.

Question. How many of those "candidate places" actually ended up as active participants in the CEDS program?

Answer. All 37 "candidate" areas opted to participate in the demonstration. As we anticipated, some responded faster and with a more concerted effort than others. We purposely chose places for their diversity in economic distress, development needs and local capacity. Through this diversity we will have a range of experiences which will make the demonstration more valuable.

Question. Did they receive special EDA planning, research or technical assistance as part of their agreement to participate?

Answer. Of the 37 demonstration places, 31 already had some form of planning or capacity building assistance from EDA. The other six were told that EDA would be receptive to an application for a modest amount of funds to assist in their preparation of CEDS. To date, four of the six places have been granted assistance.

Question. Are these CEDS areas going to become EDA's preferred clients for public works grants, business loans and guarantees, or other assistance under the EDA program?

Answer. There are no funds set aside for CEDS areas. However, it is anticipated that the CEDS process will result in the preparation of high quality Investment Strategies by a number of places. CEDS places are not "preferred clients" for any of EDA funds, with the minor exception of some planning assistance as indicated above. However, a good CEDS strategy can attract EDA and other agency funds and encourage additional private investments in a local place. This is precisely why we encourage places to prepare a CEDS strategy.

Question 10. On page 11 of the EDA 1979 budget document to which we have referred previously, this statement is made: "EDA will concentrate its resources in areas characterized by high unemployment, low growth rate, loss of jobs, outmigration of middle income persons, physical deterioration, and fiscal instability. But EDA will not invest in substantial physical projects unless the local government can demonstrate that it has the capacity to plan and carry out a comprehensive economic development strategy."

Question. Now isn't Comprehensive Economic Development Strategy the CEDS program? And aren't you saying you will not invest in physical projects unless the local government has a CEDS program?

Answer. The Comprehensive Economic Development Strategies (CEDS) is the process by which a place develops and implements an Investment Strategy in cooperation with EDA, as well as other public and private participants. An Investment Strategy is a concise document which establishes and prioritizes economic development goals, objectives, programs, and projects; coordinates diverse public and private resources; and provides a basis upon which a community can assess its multi-year investment needs and seek all appropriate avenues of assistance.

Page 11 of the EDA 1979 budget document does not refer to the CEDS program as defined above. Rather it speaks to the review that the agency makes and always has made as it reviews individual applications for substantial physical projects. EDA must satisfy itself that the local government has looked at alternatives and made a reasoned judgment that this particular project is the one investment that the place and EDA should undertake. It must be determined that the place's economic development interests are being best served by the particular project.

This is what the agency has been doing through both the OEDP process and through the determination that the individual project applications are consistent with the OEDP. The effort of the CEDS program is to improve EDA's ability to work with local places in developing and implementing effective overall economic development programs.

In no way is EDA saying that it will not invest in physical projects unless the area has a CEDS Investment Strategy. Being part of the CEDS demonstration does not mean that EDA funds go into that area; nor does the exclusion from the demonstration mean that funds will not go into the area.

Question 11. A short memo from you, Mr. Hall, to the regional directors, dated August 2, 1978, asks them to prepare a so-called regional strategy and have it in Washington by September 8. Along with your memo is a three-page outline for

preparing this strategy, which is for the fiscal year 1979. It instructs the regional administrators to "take a felt tip pen and circle areas, in their regions, without regard for jurisdictional boundaries, which fall in certain broad categories regarding underdevelopment, growth areas, areas experiencing long-term deterioration," and so forth. The work plan goes into considerable more detail. The question is this: Is it the premise of EDA to start with circles on maps and then work backward to encourage project submissions, approve projects, and distribute funds? What if a district or a city or a county falls outside one of those felt-tip circles?

Answer. The memo from which this quotation is taken—out of context—is one that was sensitive to the essentially demonstration nature of this first regional office effort to do a formal investment strategy. The purpose of the quoted instruction was to encourage the Regional Directors to rely on their own expertise and draw broad conceptual boundaries around areas characterized by particular economic development problems. This is important. Although every place is unique in its specific problems and potentials, places will tend to experience common types of problems. For example, the problems of chronic underdevelopment are usually not confined to a single place—rather, they are experienced by a large number of places, each having its own "wrinkle" on the broader problem.

EDA's experience is that different combinations of economic development assistance tend to be needed to combat each broad type of developmental problem. Thus, in areas of chronic underdevelopment, the assistance "tool kit" might contain a larger set of infrastructure programs than direct business assistance programs. One purpose of the regional strategy is to increase the probability that each region has the right mix of assistance tools and that these assistance tools are appropriately used to assist local places.

Clearly the areas grouped within the conceptual "circles" are very loosely defined. It was possible to have circles within circles, even. For example, places with heavy concentrations of especially disadvantaged populations are frequently "pockets" within larger areas.

It is not the premise of EDA to work "backward" from these circles. The circles, like the investment strategy in its entirety, is a forward looking management tool which can help the regional offices help their constituent places in preparing local investment strategies. It is out of local investment strategies that specific assistance flows. These local strategies are where the local unique wrinkles on broad types of developmental problems are addressed and solutions proposed.

Question 12. Please provide for the record the following:

A copy of EDA's minority development guidelines, showing how your agency proposed to help disadvantaged minorities; and

A copy of your recently revised directive explaining how economic development districts can become eligible for "special project" funds.



Economic Development Administration Directives System

BULLETIN

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FY 1979 MINORITY ECONOMIC DEVELOPMENT PROGRAM**A. PURPOSE**

This Bulletin presents EDA's FY 1979 Minority Economic Development (MED) Program.

B. PROGRAM RATIONALE

The Economic Development Administration's (EDA) mission is to promote the long-term recovery of economically depressed areas, including States, multi-county districts, metropolitan areas, counties, cities, towns, special areas and Indian Reservations by strengthening their economic bases. Specifically, the Agency's primary goals in these areas are:

1. to reduce unemployment and underemployment;
2. to increase the income of residents; and
3. to foster the capacity for planning and carrying out economic development programs.

EDA's mission also includes four additional goals:

4. to assist in the recovery of areas adversely affected by sudden and severe changes in economic conditions;
5. to assist firms and communities to ameliorate economic distress caused by increased foreign imports;
6. to assist economically depressed areas to construct facilities which provide essential services to low income groups; and
7. to help, when necessary, reduce cyclical unemployment by providing a fiscal stimulus to local economies and/or the national economy.

Given the relatively higher unemployment rates and lower income levels among minorities in this country, it is not surprising that minorities constitute a substantial segment of the

population in many of the economically depressed areas EDA assists. As a result of the concentrations of unemployed and underemployed minorities in many EDA target areas, an important secondary objective of EDA's place-oriented programs is to improve the economic status of minority groups in such areas. In addition to contributing to minority business and economic development, such assistance fulfills EDA's primary goal of strengthening local economies. Only by the full participation of minority groups and other segments of the community will those economies achieve the degree of diversity and stability essential to long-term economic health.

In addition to strengthening the economies of depressed areas, EDA's efforts to promote minority economic development in such areas complement other Departmental and Executive Branch activities directed toward assisting minority businesses and individuals. Both the President and the Secretary of Commerce have emphasized the Federal Government's responsibility to help increase minorities' access to economic opportunities, and a number of steps have been undertaken within the Federal Government as a whole and the Commerce Department specifically to fulfill this responsibility.

Thus, the Minority Economic Development Program developed by EDA for FY 1979 responds both to the Agency's statutory objective of aiding depressed areas and to the Carter Administration's goal of moving minority firms and individuals into the mainstream of the nation's economy.

C. PROGRAM OVERVIEW

The EDA FY 1979 MED Program contains three components:

1. financial (including procurement) and technical assistance to business firms owned by minority group members;
2. assistance to local governments, nongovernmental organizations and businesses to carry out activities designed to significantly benefit minority firms, neighborhoods or individuals (in the case of firms, this means employment); and
3. program requirements attached to EDA grants or loans for fund recipients to increase their efforts to provide employment for minority group members and to foster minority business development.

In each case, EDA is pursuing its overall objective of promoting minority business and economic development by setting specific goals and closely monitoring the extent to which those goals are being achieved. This includes the establishment of

minority economic development funding goals for each of the Agency's long-term development programs and the use of Agency influence to promote more effective minority economic development efforts by EDA fund recipients. The goals, which are subdivided among EDA's Regional and Washington Offices, are based on such factors as minority population, past activities, and program tool funding levels.

Since FY 1979 is the first full year of operation for EDA's MED Program, it is viewed as a learning year that will provide the basis for program and policy refinement. As the base year for a more precise measurement and management of EDA's MED performance, FY 1979 will also provide the foundation for the program, and goals for future years will be derived from the FY 1979 statistics. In addition, it is expected that the FY 1979 experience will provide the basis for refining and, to the extent possible, quantifying the definitions of minority economic development projects to minimize the need for individual project judgments in the future.

D. CAPACITY BUILDING GRANTS

1. Planning Grants

(a) 301(b) Grants to Economic Development Districts (EDDs). During FY 1979, EDA's goal is to spend between \$2.23 to \$2.35 million on planning grants to EDDs where at least 30 percent of the EDD population are minorities and the EDD Overall Economic Development Program's (OEDP) investment strategy includes a significant focus on minority economic development. There are 22 EDDs where between 20 and 30 percent of the population are minorities, and in cases where the OEDPs for these districts include a significant focus on minority economic development, planning grants to them would count toward meeting the EDD MED goal.

(b) 302(a) Grants to Cities and Counties and 301(b) Grants to Counties. EDA also makes planning grants to cities with populations in excess of 150,000 and to urban and rural counties. The Agency's FY 1979 goal is to spend between \$3 and \$3.15 million in FY 1979 for county and city planning grants where at least 30 percent of the jurisdiction's population are minorities and the OEDP's investment strategy includes a significant focus on MED. In the case of cities and urban counties, there may frequently be instances in which the jurisdiction's minority population is less than 30 percent and yet, because of the nature of the economic development problems of the area, the primary focus of the planning process is on members of the minority community. Such projects would count toward meeting the MED goal unless the jurisdiction's minority population is less than 15 percent, in which case a special case would have to be made.

Of perhaps greater importance than this goal will be the express new requirement that all funded cities focus on the economic development problems and needs of minority population groups, areas and business enterprises.

(c) 302(a) Grants to States. While EDA will require that States receiving Agency planning grants focus on minority needs, in most cases the proportion of the grantee's efforts devoted to such issues is unlikely to be great enough to justify classifying the project as a minority economic development activity.

(d) 301(b) Grants to Indian tribes.

2. Technical Assistance

EDA also makes technical assistance grants as part of its capacity building effort. In FY 1979, EDA's goal is to spend between \$6.035 and \$6.353 million on the following types of minority economic development projects.

(a) Grants or contracts to organizations (majority or minority) to carry out economic development activities that include a significant focus on minority businesses, individuals, or neighborhoods.

(b) Grants or contracts to units of government where 30 percent of the jurisdiction's population are minorities to carry out economic development activities that include a significant focus on minority neighborhoods, businesses, or individuals.

(c) Grants or contracts to any unit of government for the sole purpose of carrying out economic development activities designed to benefit minority neighborhoods, businesses, or individuals.

(d) Grants to Indian tribes.

The Indian technical assistance allocation represents \$1.6 million of the \$6.035 to \$6.353 million goal.

Through its technical assistance program, EDA also provides several million dollars to university centers which provide a variety of types of technical assistance to individual firms, communities, and development organizations. In addition to specifically requesting such centers to assist minority firms, EDA will require that they collect data on the extent to which they assist such firms in FY 1979. EDA will also explore the possibility of making some of its FY 1980 university center grants to predominately minority colleges.

3. Long-Term Economic Deterioration (LTED) Planning and Technical Assistance Grants

Under EDA's new LTED Program, several types of grants are made to organizations to formulate and implement programs designed to reverse long-term deterioration. These include planning and technical assistance grants. Since the division of funds between the various types of grants has not been decided, no specific dollar goal has been set for planning and technical assistance grants. However, the Agency's overall FY 1979 goal for the nonrevolving loan portion of the LTED Program is to spend between \$8.464 and \$8.91 million on MED projects. In the case of LTED planning and technical assistance grants, the definitions of such projects are the same as those presented above under Technical Assistance.

E. BUSINESS LOANS AND LOAN GUARANTEES ^{1/}

EDA administers a program of fixed asset and working capital loans and loan guarantees to firms, minority and majority, generating employment in economically distressed areas. In general, EDA's loans and guarantees are for larger firms requiring assistance of \$500,000 or more. Small Business Administration (SBA) ordinarily provides assistance below these levels. Based on this level, the Agency's goal for FY 1979 is to spend between \$21.399 and \$22.525 million on two types of MED projects:

1. Loans or loan guarantees to minority-owned firms (i.e., a business at least 50 percent of which is owned by minority group members). These loans and guarantees must meet the same job generation or retention criteria and minority hiring standards as other EDA loans.
2. Loans or loan guarantees to majority-owned firms in which 50 or more jobs are created or saved and at least 30 percent of such jobs will be filled by minorities. One exception to this definition is in cases where the Affirmative Action Plan is disapproved because the percentage of minorities to be employed, even though 30 percent or more, is inequitable given the minority composition of the local labor force. Of the \$21.399 to \$22.525 million between \$8.56 and \$9.01 million is to be used to provide loans or loan guarantees to minority-owned firms.

^{1/} In addition to the business loans made to foster long-term economic development which are discussed in this section, EDA also makes business loans to help businesses affected by dislocations caused by import competition and other factors. Since EDA has no control over which firms are eligible for these loans, they are not included in the MED Program.

When EDA guarantees a loan made by a bank, insurance company or other commercial lender, the Agency sets aside 20 percent of the guaranteed portion of the loan as a reserve. Thus, EDA's funds can help create or save more than five times as many jobs in distressed areas by loan guarantees than by direct loans. For this reason, EDA is making strong efforts to increase the ratio of its loan guarantees to total business lending activity. It is, of course, the primary responsibility of the borrower to find a commercial lender willing to make a loan with an EDA guarantee. To date, minority-owned businesses have, for the most part, been unsuccessful in finding commercial lenders willing to make such loans for long enough terms or at low enough interest rates to satisfy their business needs. Thus, a special effort will be required to stretch the funds available for minority firms by making loan guarantees instead of direct loans.

To assist in meeting these goals, EDA has designated one staff member in the Agency's Washington Business Development Office as a minority business assistance coordinator. This individual has been given responsibility for promoting and keeping track of EDA business development assistance to minority firms. In addition to developing a work program to be implemented in FY 1979 for increasing EDA's loan and loan guarantee assistance to minority firms, this individual will work closely with Regional Office staff on individual loans. It is expected that one element of the work program would be an EDA-sponsored meeting 1/ with the American Bankers Association and other representatives of the lending community to apprise them of EDA's programs and interest in working with them through a Federal guarantee mechanism to provide financing to minority firms. Training and consciousness-raising of EDA Regional Office staff, particularly in regions that have not had significant minority loan activity in the past, may also be included in the work program.

F. PUBLIC WORKS GRANTS

During FY 1979, EDA's goal is to expend between \$66.619 and \$70.125 million on the following types of minority economic development public works projects:

1. Grants to minority-controlled non-profit organizations and Indian tribes to construct or renovate public works facilities.

1/ Other Commerce Department agencies, such as the Industry and Trade Administration, might also participate in and co-sponsor such a meeting.

2. Grants to units of government on non-profit organizations to finance public works projects whose impact areas (delineated by Census tracts or enumeration districts) contain a minority population of at least 30 percent and which specify service or employment impacts on minorities as a major project objective.

In cases where it is not obvious from the project location or other factors that minorities will automatically benefit, Regional Office staff must obtain information on the specific steps the applicant will take to insure that the minorities the project is intended to aid do in fact benefit. For example, in the case of an industrial park project, the applicant might indicate that it will negotiate with any firms locating in the park to establish special programs for recruiting minorities. If the applicant is a city, it might also make a commitment to make available Comprehensive Employment and Training Act (CETA) funds to train minorities to fill the jobs created by firms locating in the park. If applicants provide information on specific steps they will take and the Regional staff judges them to be realistic and reasonable, the project will count as a MED project.

3. Public works projects on which an applicant (not EDA) establishes a minority business set-aside of at least 30 percent.

Of the \$66.619 to \$70.125 million, \$20.5 million is for public facilities for Indian tribes, and \$31.5 million is for grants under the Agency's Special Projects Program (see Section I).

G. LONG-TERM ECONOMIC DETERIORATION (LTED) IMPLEMENTATION GRANTS

As indicated previously, between \$8.464 and \$8.91 million, or approximately 30 percent, of the public facility, planning, and technical assistance funds available in FY 1979 under EDA's Title IX LTED Program will be used to finance MED projects. It is expected that the vast majority of these funds will be used for the types of MED public facility projects described under Section F.

The FY 1979 Title IX LTED Program also includes \$15 million in grants to communities to establish revolving loan funds to carry out activities covered in local LTED strategies. These activities include acquisition, rehabilitation and renovation of empty buildings for industrial and commercial use. For FY 1979, EDA's goal is to expend between \$2.565 and \$2.7 million of this amount on the following types of MED projects:

1. Grants to minority-controlled non-profit organizations that represent redevelopment areas to carry out Title IX activities.

2. Grants to units of government or majority-controlled non-profit corporations representing redevelopment areas for the sole or primary purpose of lending funds to MBEs.
3. Grants to units of government or majority-controlled non-profit corporations representing redevelopment areas whose defined target areas have minority populations of at least 30 percent and which specify services to or employment for minorities as a major project objective.

In cases where it is not obvious from the project location or other factors that minorities will automatically benefit, Regional Office staff must obtain information on the specific steps the applicant will take to insure that the minorities the project is intended to aid do in fact benefit. For example, the applicant might indicate that it will negotiate with any firms receiving loans to establish special programs for recruiting minorities. If the applicant is a city, it might also make a commitment to make available CETA funds to train minorities to fill the jobs created by the firms. If applicants provide information on specific steps they will take and the Regional staff judges them to be realistic and reasonable, the project will count as an MED project.

H. DIRECT PROCUREMENT

EDA procures the services of private contractors to carry out research, analyze and evaluate EDA programs, help administer its information systems and furnish office services. For the most part, these services are rendered under contracts, but some research and program analysis activities are funded by grants.

1. Research

EDA's goal for FY 1979 is to spend between \$570,000 and \$600,000 of its research budget on the following types of MED projects:

- (a) Research grants or contracts to minority firms.
- (b) Those portions of research contracts that are subcontracted to minority firms.
- (c) Research grants or contracts to finance studies focusing on MED issues.

Of the funds, between \$285,000 and \$300,000 is to go to minority firms. It is expected that these amounts will increase substantially in future years.

2. Program Analysis

The Agency has also established an MED goal for its FY 1979 program analysis activities. Of the funds available, between \$356,000 and \$375,000 will be used for the following types of MED projects:

- (a) Evaluation grants or contracts to minority firms.
- (b) Those portions of evaluation contracts that are subcontracted to minority firms.
- (c) Evaluation grants or contracts to finance studies focusing on MED issues.

3. Information and Office Services

In FY 1979, EDA will procure between \$500,000 and \$600,000 in information and office services from minority-owned firms. This goal will be reached through direct contracts with such firms and/or through subcontracts between minority firms and majority firms.

I. SPECIAL PROJECTS

In FY 1979, EDA formalized its inclusion of local, non-profit, nongovernmental organizations as active partners in the economic development process. Included in this Special Projects group are urban neighborhood organizations which are, in most cases, controlled minority group members. EDA has been providing capacity building, public works and business loan assistance in support of the economic development strategies of such organizations. With increased resources, EDA will expand these efforts from \$30 million in FY 1978 to \$50 million in FY 1979. These funds and their relationship to minority economic development are included in the figures already presented for EDA's various program tools.

J. TARGETED REQUIREMENTS

1. Minority Procurement Preferences

The Public Works and Economic Development Act and other EDA program legislation mandate the Agency to require that EDA grant and loan recipients further certain social objectives by employing veterans, limiting purchases of materials to those made in the United States, and paying prevailing wages. One such condition in the \$4 billion Round II Local Public Works (LPW) program required grantees to spend 10 percent of grant funds for Minority Business Enterprises (MBEs). EDA will achieve that goal and is developing an approach for assisting minority firms in conjunction with its regular public works programs.

EDA will continue to work with OMBE to ensure that minority-owned firms are in a position to benefit as fully as possible from contracting opportunities resulting from Federal MBE requirements. The Agency is also working with the Department's Interagency Council on Minority Business Enterprise to advocate adoption of similar requirements for construction projects financed by other Federal agencies.

2. Comprehensive Economic Development Strategies (CEDS)

In addition, EDA is now testing a more comprehensive approach to economic development planning and assistance. A representative group of 37 EDA areas was selected to participate in a demonstration effort aimed at developing Comprehensive Economic Development Strategies (CEDS) at the local or multi-county level. EDA requires that those jurisdictions and organizations participating in the CEDS effort include as part of their strategies specific plans for fostering minority economic development. Grantees are also required to obtain the participation of representative minority organizations in developing their strategies. The approach used to insure such participation is the same as that followed by EDA-designated areas in constituting Overall Economic Development Program (OEDP) Committees. In fact, in the vast majority of CEDS areas, the OEDP Committee is the body that is developing the investment strategy, and thus, minority groups are already appropriately represented. In addition, EDA staff will meet with the staff of the Urban Coalition and similar national minority organizations to discuss overall CEDS policies.

3. Minority Banks

EDA will also encourage its grantees to deposit funds in minority-owned banks and provide other support for those banks. Early in the LPW program, EDA sent letters to all grantees in areas served by minority-owned banks encouraging them to designate such banks to handle the EDA letter-of-credit. The response thus far has been disappointing as grantees have used minority-owned banks only for 70 projects and a total of \$79.5 million in letters-of-credit. Believing that the poor response was due in material part to a Treasury requirement that each grantee use only one bank for all its LPW letter-of-credit, EDA staff asked Treasury to relax that rule so that cities could use minority-owned banks for part of their LPW projects. Treasury permission has now been received, and the Assistant Secretary has written to the mayors of major cities, urging them to transfer some of their letter-of-credit business to minority-owned banks. As a new initiative in FY 1979, EDA will ask all recipients of planning grants and all local governments preparing CEDS to state to what extent they plan to deposit funds or otherwise provide business for minority-owned banks.

K. INDIAN PROGRAMS

EDA has always made a special effort to support Indian community and economic development. As described previously, the various types of grants to Indian tribes and Alaskan native villages will total \$26.1 million in FY 1979. EDA is focusing its efforts increasingly on economic rather than community development in its Indian programs. A special effort is now underway to make sure that Indian tourism developments are placed on a sound operating basis or liquidated to avoid drains on tribal resources.

L. OPERATING PROCEDURES

The nature of the operating procedures for EDA's MED Program reflects the Agency's view of that program as an integral component of its overall economic development activity. It was not conceived as a separate and distinct undertaking which would necessitate the establishment of an organizational entity or entities to carry it out, but rather as an effort that would be accomplished through EDA's regular program personnel. As a result of the formal articulation of an EDA MED Program, these staff will focus more specifically than perhaps has been the case in the past on the economic development needs and potentials of minority neighborhoods, businesses, and individuals in EDA-designated areas.

Implementation of the MED effort will be accomplished through the efforts of staff in the Agency's Washington and Regional Offices. Overall coordination responsibility rests with the Special Assistant to the Assistant Secretary, who will work closely with staff of the Regional Offices, Office of Special Projects, Office of Civil Rights, and Office of the Chief Counsel. Progress toward many of the goals established for the FY 1979 effort will be measured and monitored as part of the Agency's Operational Planning and Control System (OPCS). Quarterly reporting through this system will provide the information necessary to determine if additional action is required to insure acceptable progress toward meeting those goals.

Goals that do not lend themselves to incorporation in OPCS will also be monitored on a quarterly basis. During the first year of the MED effort, this monitoring will be accomplished through quarterly reports submitted by those EDA units with responsibilities for such goals. These reports will be reviewed by the Special Assistant to the Assistant Secretary and representatives of the Offices identified above.

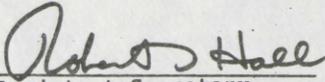
Responsibility for identifying and developing MED projects to meet the Agency's goals rests with field staff who have been identified by EDA's Regional Directors and Washington staff

identified by EDA Office Directors whose offices are responsible for MED goals. As necessary, these staff will receive clarification and guidance on Agency policy and potential MED activities from the Special Assistant to the Assistant Secretary.

M. SUMMARY AND CONCLUSIONS

Under EDA's capacity building, business development, public works, long-term economic deterioration, and procurement programs, the Agency's goal is to spend between \$115.3 and \$121.5 million in FY 1979 on MED projects. The Agency's performance in meeting this goal and carrying out the various MED activities identified previously will provide the basis for measuring MED efforts in future years.

While EDA expects to make measurable progress in MED during FY 1979, the period will also be one of policy refinement and program development. EDA will be integrating MED project definitions, data collection, and reporting into its OPCS, as well as seeking ways to generate increased investment in minority neighborhoods and through minority-controlled organizations. The Agency will also try to develop new approaches to capital and credit formation for minority-owned businesses and to job development for minority persons. In addition, consideration will be given to means of effecting an equitable distribution of benefits among the various minority groups included in the program. As a result, by the end of FY 1979, EDA should have in place a MED program with clearer goals, more effective programs, and more precise measures of performance.



Assistant Secretary
for Economic Development



U.S. DEPARTMENT OF COMMERCE
ECONOMIC DEVELOPMENT ADMINISTRATION

Economic Development Administration Directives System

GENERAL ADMINISTRATION & STAFF SERVICES

No. 17.01-1
Effective Date: 10/5/78

SPECIAL PROJECTS PROGRAM

Sections

- .01 Purpose
- .02 Program Policy
- .03 Program Objectives
- .04 Program Overview
- .05 Definitions
- .06 Organizational Responsibilities
- .07 Procedures
- .08 Project Selection Criteria
- .09 Effect on Other Directives

17.01-1.01

PURPOSE

This Directive establishes program policy and objectives, provides a program overview and program definitions; and outlines responsibilities, procedures and the project selection criteria for EDA's Special Projects Program. The Directive also establishes the lead role and responsibilities of the Office of Special Projects in generating EDA activities and projects relating to non-profit, non-governmental entities in both urban and special rural areas.

17.01-1.02

PROGRAM POLICY

It is EDA policy to promote and support permanent employment and income generating economic development activities that benefit the disadvantaged residents of urban neighborhoods and special rural areas. Further, it is EDA policy to promote and support those activities which are planned and implemented by community-based non-governmental and non-profit organizations

which work in concert with local and other governmental activities and private organizations and businesses. The plans and programs of these organizations should, among their program initiatives, consider the need to provide jobs and facilities which will ensure the delivery of essential goods and services for the disadvantaged groups within the urban neighborhoods and special rural areas.

As part of the overall economic development process it is necessary that community based organizations in selected areas be effective in securing the involvement of disadvantaged and other groups. Such involvement, coupled with overall economic development efforts, can enhance the economic base and growth opportunities of both the target areas and the broader locality.

The primary policy objective of the program is the meshing and interrelating of community based activities and local governmental activities, in an overall mutually reinforcing effort.

17.01-1.03

PROGRAM OBJECTIVES

The objectives of the Special Project Program are:

- a. To restore or substantially improve the employment and income standard of the residents of target program areas and target special population groups; and/or
- b. To assist local organizations and/or government to develop or implement comprehensive economic development strategies in the absence of, or coordinated with, broader area activities to directly benefit residents; and/or
- c. To supplement and foster the development capacities of local organizations/government in order to improve their ability to plan and coordinate local programs to improve economic conditions and to address the employment needs of area residents; and/or
- d. To provide financial assistance for the construction or renovation of facilities which will enhance private sector investment or retention of firms which provide employment opportunities, or to support upgrading or retention of commercial activity needed to stabilize local economics.

17.01-1.04
PROGRAM OVERVIEW

a. General

The Special Projects Program, through the use of legislated EDA programs, is designed to:

- (1) Directly address the economic development problems of distressed target groups in urban neighborhoods and special rural areas.
- (2) Supplement traditional local government based programs in selected areas.
- (3) Encourage and stimulate participation of Federal and local Government, labor, private businesses, community groups and individual citizens.
- (4) Be easily coordinated with Federal, State and local programs.
- (5) Increase opportunities for minorities and the unemployed, low income and other disadvantaged groups.
- (6) Strengthen and preserve the economic base of selected targeted areas.
- (7) Be flexible and respond to the specific needs and locally developed strategies of selected/targeted areas.
- (8) Address the cycle of economic and physical decline or stagnation in urban neighborhoods and special rural areas.

b. Management

The Office of Special Projects has been established to provide advice, direction and coordination for the development and implementation of the special projects program and projects to assist targeted urban neighborhoods and special rural areas.

The Special Projects Policy Committee has been established to review program plans and major planned projects, and to develop future directions/strategies for the Special Projects Program.

c. Distribution of Funds

(1) Regional

Funds appropriated for legislated EDA program uses and allocated for the Special Projects Program will be further allocated by Federal Region to support program or project activities in that area. The allocation is based generally on the number and severity of unemployed or underemployed in such areas.

(2) Washington

Funds appropriated for legislated EDA program uses and allocated for the Special Projects Program will be further allocated to support projects/program activities for nationally identified and developed projects that can serve as demonstrations and that have multistate or national scope.

d. Eligibility

In addition to the eligibility requirements of legislated EDA programs, the following determine eligibility under the OSP Program:

- (1) Neighborhoods in eligible or designated places with high unemployment and/or low incomes that can include low income or high unemployment urban neighborhoods or "pockets of poverty" in otherwise healthy cities;
- (2) Rural communities or groups of communities related by geography, economy, problems and potential solutions;
- (3) Eligible or designated areas having an existing neighborhood based organization with staff which plans, coordinates or carries out an economic development strategy for the general benefit of neighborhood residents; and/or
- (4) Economic Development Districts when they are representative of special groups and areas of distress and high unemployment; and where that EDD, in conjunction with a community-based, non-profit organization, plans and implements project activities.

e. General Type of Assistance Provided

The financial assistance provided through the Special Projects Program is in the form of grants, loans and loan guarantees, the use of which is governed by legislative and administrative requirements. A summary of the uses of this financial aid follows:

- (1) Grants for support of staff and administrative costs of coordinating and implementing economic development programs. In the case of Economic Development Districts that are coordinating or implementing economic development programs with community-based, non-profit organizations, the EDD must provide the 25 percent matching share.

(2) Grants for the costs of construction, renovation or repair of public facilities or of facilities, which will be owned and managed by public or private non-profit groups for economic development or related purposes.

(3) Loans and loan guarantees to businesses which will employ or retain area residents to prevent or reduce unemployment or underemployment.

f. National Special Projects Program will address plans and projects of multistate or national scope, those that have special program interest to the Assistant Secretary and those that can serve as demonstrations to various targeted areas of the Nation. Annually, a National Special Projects Program Plan will be prepared which will identify the major strategies and projects to be pursued.

g. Regional Special Projects Program will concentrate on local urban neighborhood and special rural area initiatives and addresses special projects of local or intra-regional scope--for example, assistance to upgrade a segment of a targeted area's economy. Annually, a Regional Special Projects Program Plan will be prepared which will identify the major strategies and projects to be pursued.

17.01-1.05

DEFINITIONS

a. Special Program Plans are designed to implement EDA's basic developmental strategies for urban neighborhoods and special rural areas. The plans would assist in the development of Special Project Program decisions regarding the distribution of its funds and would be a means of aligning or readjusting area OEDP documents and process and other area plans with the Regional or National Special Projects Program strategy. (The planning process is described in more detail in Section 17.01-1.07, Procedures, in this Directive.)

b. Special Projects are projects which:

(1) (a) Are sponsored and carried out by community-based, non-profit organizations that are not units of general purpose local government; or

(b) Are sponsored, developed or carried out by an Economic Development District in cooperation with a community-based, non-profit organization;

(2) Provide jobs or other direct economic benefits to chronically disadvantaged population groups and/or distressed local areas;

(3) Are planned in accordance with overall local economic development program or investment strategy; and

(4) Are carried out in coordination with city or rural development institutions.

17.01-1.06

ORGANIZATION RESPONSIBILITIES

In addition to their regularly assigned program responsibilities, the following organization elements will support and have additional responsibilities for the urban neighborhood and special rural area program:

a. The Assistant Secretary will:

(1) Approve annual urban neighborhood and special rural area plans and budgets.

(2) Approve urban neighborhood and special rural area projects.

(3) Provide general policy supervision.

(4) Chair the Special Projects Policy Committee.

b. Special Projects Policy Committee:

The Committee will be chaired by the Assistant Secretary. The Director, Office of Special Projects will perform the duties and responsibilities of the Executive Secretary and the membership will consist of the Deputy Assistant Secretary for Economic Development, the Deputy Assistant Secretary for Operations, the Deputy Assistant Secretary for Policy and Planning and the Chief Counsel.

c. The Special Projects Policy Committee will:

(1) Provide general program policy and guidelines and develop future strategies.

(2) Review and approve national and regional urban neighborhood and special rural area fund allocations.

(3) Review and provide general oversight of regional and national special projects plans.

(4) Review and provide general guidance to individual special projects on a selected basis.

d. The Office of Special Projects will:

- (1) Coordinate urban neighborhood and special rural area program and policy with Federal, State, local and regional office officials.
- (2) Perform urban neighborhood and special rural area project outreach, identification and assistance.
- (3) Assist regional offices in the preparation of annual urban neighborhood and special rural area plans.
- (4) Review all annual neighborhood and special rural area plans submitted and recommend those which are endorsed by the Office of Special Projects to the Assistant Secretary for approval.
- (5) Monitor, evaluate and periodically report subject program results to the Assistant Secretary.

e. The Director of the Office of Special Projects will:

- (1) Be a member of the Special Projects Policy Committee and will perform the duties of the Executive Secretary.
- (2) With concurrence of the Assistant Secretary, convene the Special Projects Policy Committee whenever it is necessary.
- (3) Provide the leadership in the development and preparation of urban neighborhood and special rural area program policy.
- (4) Be responsible for the preparation of the national special projects program plan.
- (5) Oversee the development of the national special projects proposals.
- (6) Review all urban neighborhood and special rural area projects submitted and recommend acceptable projects to the Assistant Secretary for approval.
- (7) Provide guidance to the regional directors and special projects program officers in matters dealing with the special projects programs and activities.

f. Regional Directors will:

- (1) Perform urban neighborhood and special rural area projects identification and assistance.

(2) Prepare annual urban neighborhood and special rural area program plans.

(3) Implement approved urban neighborhood and special rural area plans.

g. Regional Special Project Program Officers will:

(1) Assist Regional Directors in the preparation of annual urban neighborhood and special rural area program plans and budgets.

(2) Monitor their offices' performance of these approved plans.

(3) Provide information to their program offices, EDRs, and staff concerning the urban neighborhood and special rural area program.

(4) Assist Regional Directors, EDRs, and staff in providing out reach to distressed areas that are served by non-government, non-profit, community-based organizations.

h. Regional Special Project Review Committee:

The Committee will be composed of regional office staff members representing public works, business development, technical assistance and planning and the Special Projects Program Officer.

The Committee will assist the Regional Director by reviewing local urban neighborhood and special rural area projects for possible inclusion in the Special Projects Program plans and budget and recommending changes and/or inclusions to the plan.

17.01-1.07

PROCEDURES

a. The Regional Offices will:

(1) Identify prospective program projects through area analysis, visitation, assistance to institutions and organizations in appropriate localities.

(2) Review prospective projects through its Regional Project Review Committees with appropriate recommendations to the regional directors consistent with the program purpose, project selection criteria and other instructions.

(3) Determine program performance and resource requirements for the following fiscal year with OSP clarifying instructions to the regional offices.

(4) Prepare Regional Special Projects Program Plan for the next fiscal year. To accomplish its purpose, each Regional Special Project Plan would be developed through the following process:

(a) A review of the OEDP document and process to determine:

(i) Whether they provide a comprehensive analysis of the subject area's economic problems.

(ii) The extent to which the urban neighborhood or special rural area self-analysis relates to the external effects of either national and/or regional economic growth trends and policies.

(iii) The extent to which the planning process has broad community involvement, including its relationships to the appropriate official governmental and non-governmental structures, as well as the degree to which this process reflects and responds to the needs of the area's unemployed, underemployed, and low income citizens.

(b) The development of a regional/national urban neighborhood or special rural area strategy to include:

(i) Information and analysis necessary to understand the economy of the area.

(ii) Outlines of alternative development strategies which might be used to assist the subject area, based on national and/or regional growth trends and policies, taking into account existing resources, the amount and type of economic problem to be resolved in the area, the prospects for change and economic advancement in the area.

(iii) Detailed description of the strategy which special project National/Regional analysis indicates would be most feasible for improving the economic well-being of the urban neighborhood or special rural area.

(iv) A general overall program approach for implementation to include:

(aa) Identification and justification of the kinds of program activities which OSP would consider for the subject area. These programs will indicate the types of possible project activities that EDA might undertake within each program.

(bb) Recommendations of the economic development activities to be undertaken by the area itself.

(cc) Identification of the types of economic development activities that might be undertaken by other private interest groups.

(5) Submit plans to OSP for review and comment.

(6) Obtain OSP comments for each urban neighborhood and special rural area project considered for approval by those offices. Regional Offices shall include OSP comments in the Action Memorandum (ED-506) and have OSP clear all regional projects.

(7) Monitor the performance of funded program activities to assess the level of progress attained and to determine, and/or assist, in the resolution of problems which impede the progress of these organizations.

b. The Office of Special Projects will:

(1) Review Regional Special Project Plans for conformance with program policy and priorities.

(2) Submit Regional/National Special Project Plans to the Special Projects Policy Review Committee for review and recommendation for the Assistant Secretary's approval.

(3) Forward nationally developed projects to the Policy Committee and recommend Assistant Secretary action.

(4) Return approved Plans to the regional office for implementation.

(5) Review all urban neighborhood and special rural area projects submitted and recommend those endorsed by the OSP to the Assistant Secretary for approval.

(6) Make available to regional offices, for their comment, copies of National Special Project Program Plans that affect the urban neighborhood and special rural areas in their regions.

(7) Monitor the performance of nationally-funded program activities to assess the level of progress attained and to determine, and/or assist in, the resolution of problems which impede the progress of these organizations.

(8) Periodically report the progress in the accomplishment of the approved annual program plan and the performance of the funded organizations.

(9) Modify approved annual plans when there is an identification of new projects or the deletion or modification in the pertinent information concerning project organization,

location, or anticipated performance or a significant variation in cost. In any of these cases, a request for plan modification should be sent to the Assistant Secretary through the OSP.

17.01-1.08

PROJECT SELECTION CRITERIA

a. The following specific elements will be used to determine what projects will be recommended for approval from the regional and national Special Projects Program Plan.

- (1) Factors Determining Urban Neighborhood and Special Rural Area Need.
- (2) Factors Determining Neighborhood and Special Rural Area Preparedness.
- (3) Factors Determining Conformity to EDA's Policies and Procedures.
- (4) Factors Determining Project Content.

The selection criteria for urban neighborhood and special rural area projects will be based on a logical framework using specific "Factors" that must be present for project approval.

1. Factors Determining Urban Neighborhood and Special Rural Area Need

Of the five (5) factors listed below, two (2) of the five (5) must be present:

- (a) Unemployment rate and number of unemployed urban neighborhood and special rural area residents. In addition, stagnant employment growth and low labor force participation characteristics, define program area need. In the worst cases, a high or worsening unemployment rate and/or a large number of unemployed is often associated with similar characteristics for the surrounding city or area.
- (b) Underemployment resulting from technological or other changes which renders certain specific jobs useless or "dead-end."
- (c) Low or relatively decreasing income level of project area residents. In the worst cases, the income characteristics of a low income growth rate coupled with a high rate of transfer payments.

(d) Slow growth or the decline of the urban neighborhood and special rural area commercial and industrial sector characterized by increased business failure or relocation, insufficient retail and service firms to satisfy the needs of local residents, reduced or non-existent modernization or expansion of existing firms.

(e) Low or deteriorating acceptable standard of living factors. Deteriorating housing with low levels of modernization and new construction (no investment) high levels of crime, inadequate education facilities and services and inadequate public services.

All of the above stated criteria briefly describe the collective status of a "need" urban neighborhood and special rural areas. Generally, if an area is characterized by problems in the first two categories, the area is in the early stages of economic deterioration. If an area can be characterized by substantial problems, in all five categories of need, then it is in advanced state of deterioration.

2. Factors Determining Neighborhood and Special Rural Area Preparedness

The project area should have a local institutional capability characterized by the factors described below. If it does not EDA assistance to such an area should include strengthening the organization so that it ultimately possesses as many of these qualities as necessary to permit successful investment strategy implementation.

One of the following factors must be present; however, the presence of the local community based institutional capacity is preferable.

(a) Local, non-governmental institutional capacity within the urban neighborhood and special rural area--there should be a local economic development organization capable of planning and implementing economic development programs and activities.

The organizations with the greatest capacity should possess the following characteristics:

(1) Active board of directors representing a wide range of community, local government, organized labor and private sector interests.

(2) Strong ties to and relationship with the OEDP committee and its work with its own investment strategy and its job creation/job development plan that supports the current OEDP.

(3) Active leadership role in local economic development activities over a reasonable period of time sufficient to demonstrate their capacity.

(4) Active leadership role in a variety of successful local economic development activities including planning, financing, construction, manpower training, etc.

(5) Demonstrated ability to undertake creative and innovative economic development activity which logically and successfully follows-on to previous efforts. This can be partially demonstrated by the organization's ability to gain organizational and financial support from a variety of related sources including foundations, other local and Federal agencies, etc.

(6) Strong executive director leadership, which includes knowledge of and a working ability in all of the major aspects of economic development, excellent contacts and working relationships with appropriate public and private sector parties.

(7) Experienced and capable full time organizational staff.

(b) Other Local Institutional Capacity

(1) Local Government and EDD's - Has plans, proposals or programs which are supporting, or can support, the maintenance and improvement of the urban neighborhood or special rural area, i.e., public services which include education, transportation, security, zoning, etc.

(2) Organized Labor - Supportive of, and has participated in, previous or planned efforts to solve the problems of the project area.

(3) Private Sector - Firms presently located in the project area desire to remain and/or are prepared to improve facilities under suitable circumstances. Financial community prepared to invest in the area.

(c) Other State and Federal Plans, Programs and Investments in the Area (i.e., EDA's 302 and 304; HUD's Title I CDBG, UDAG, and 701, etc.)

This includes past, present and planned investment which contributes to the attractiveness of the project area for further private and public sector investment.

3. Factors Determining Conformity to EDA's Policies and Procedures

All five of the following factors should be attainable for project approval.

(a) The area should presently be designated or eligible for designation.

(b) Local Overall Economic Development Plan should be current and approved as required.

(c) The area need, neighborhood and/or other institutional capacity and other state and Federal investment discussed above should be sufficiently great and present to provide maximum assurance of successful local economic development program completion.

(d) The specific project applications submitted by local economic development organizations or governmental institutions representing the target areas shall be feasible, consistent with the OEDP, where required, and satisfy the usual project requirements which apply to each category of request, i.e., Public Works, Business Development, Technical Assistance, Planning, Title IX, 204, and other appropriate programs.

(e) Specific project applications may be submitted by governmental institutions for Special Projects Program assistance where assistance to a government body is deemed necessary to reach the programmatic needs of a target area represented by a local economic development organization. Such applications will not be approved unless EDA determines that they are consistent with the objectives of the local nonprofit, economic development organization which is representative of the proposed project area.

4. Factors For Determining Project Content

Both factors must be present for project approval.

(a) Cost of project - The cost of the project must be reasonable, given the number of anticipated employment opportunities and the significance of the project to the longer term strategy of the organization. The amount and variety of participation by the other (non-EDA) funding sources must reflect maximum local involvement.

(b) Economic Impact - The project must result in an acceptable permanent or, depending on the type of project involved, temporary employment impact, particularly for the

residents of the project area. The other economic impacts (institution-building, business opportunities, etc.), when combined with the previously discussed employment benefits, must be sufficiently great to make this project a justifiable investment. The proposed project must be consistent with the overall investment strategy for the area and the implementation approach sound and workable so that the stated economic benefits, especially for the area's residents, may be achieved.

c. Economic Development Districts

In addition to the project selection factors listed in a. above, Economic Development Districts may apply for OSP assistance when the following conditions are also met:

(1) Projects are sponsored and carried out in conjunction with community-based, non-profit organizations. Consideration will be given to applications in the following order of priority:

(a) A joint application is made between the EDD and a community-based, non-profit organization;

(b) An application is made by the EDD with provisions for subcontracting to a community-based, non-profit organization to participate in project planning and implementation; or

(c) An application is made by the EDD with provisions for non-reimbursable participation of a community-based, non-profit organization in project planning and implementation.

(2) The EDD demonstrates that the following resources will be utilized in the implementation of the joint project:

(a) The planning and institutional capability of the EDD;

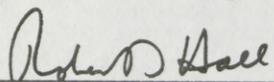
(b) The non-financial services of the EDD, such as information, and

(c) As appropriate, the financial resources of the EDD.

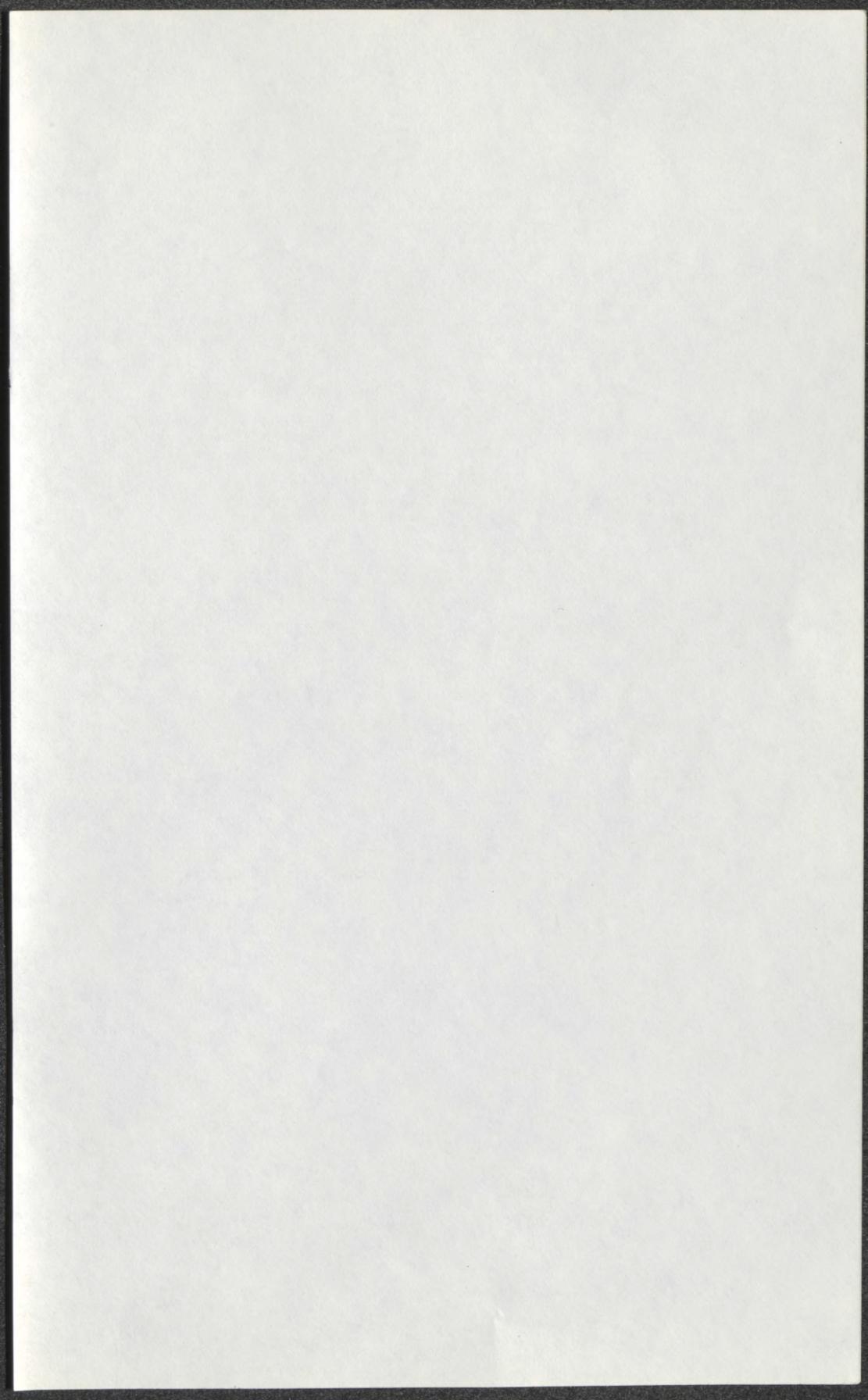
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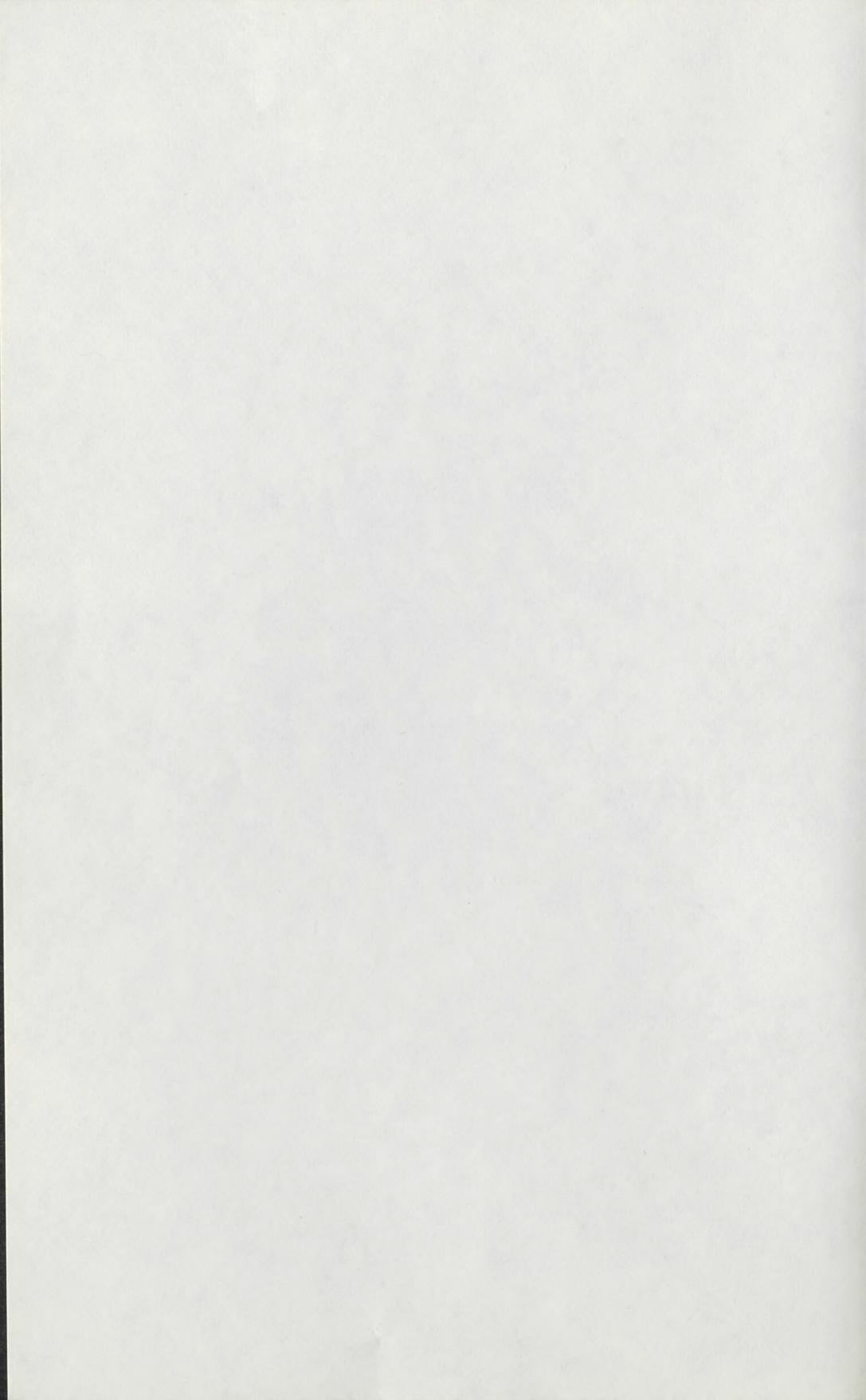
EFFECT ON OTHER DIRECTIVES

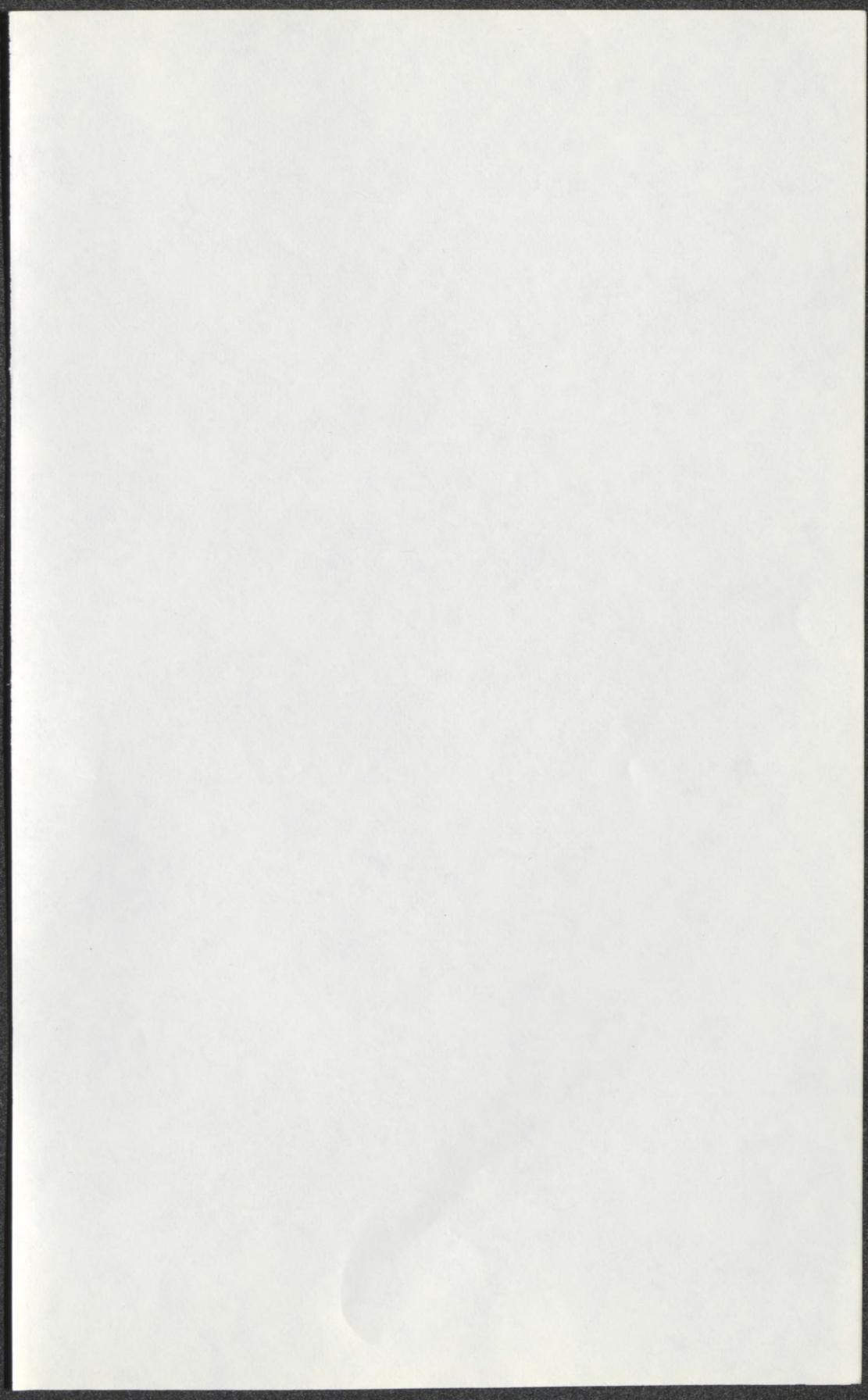
This is a new program Directive and will not affect existing authorities and responsibilities in other program Directives.

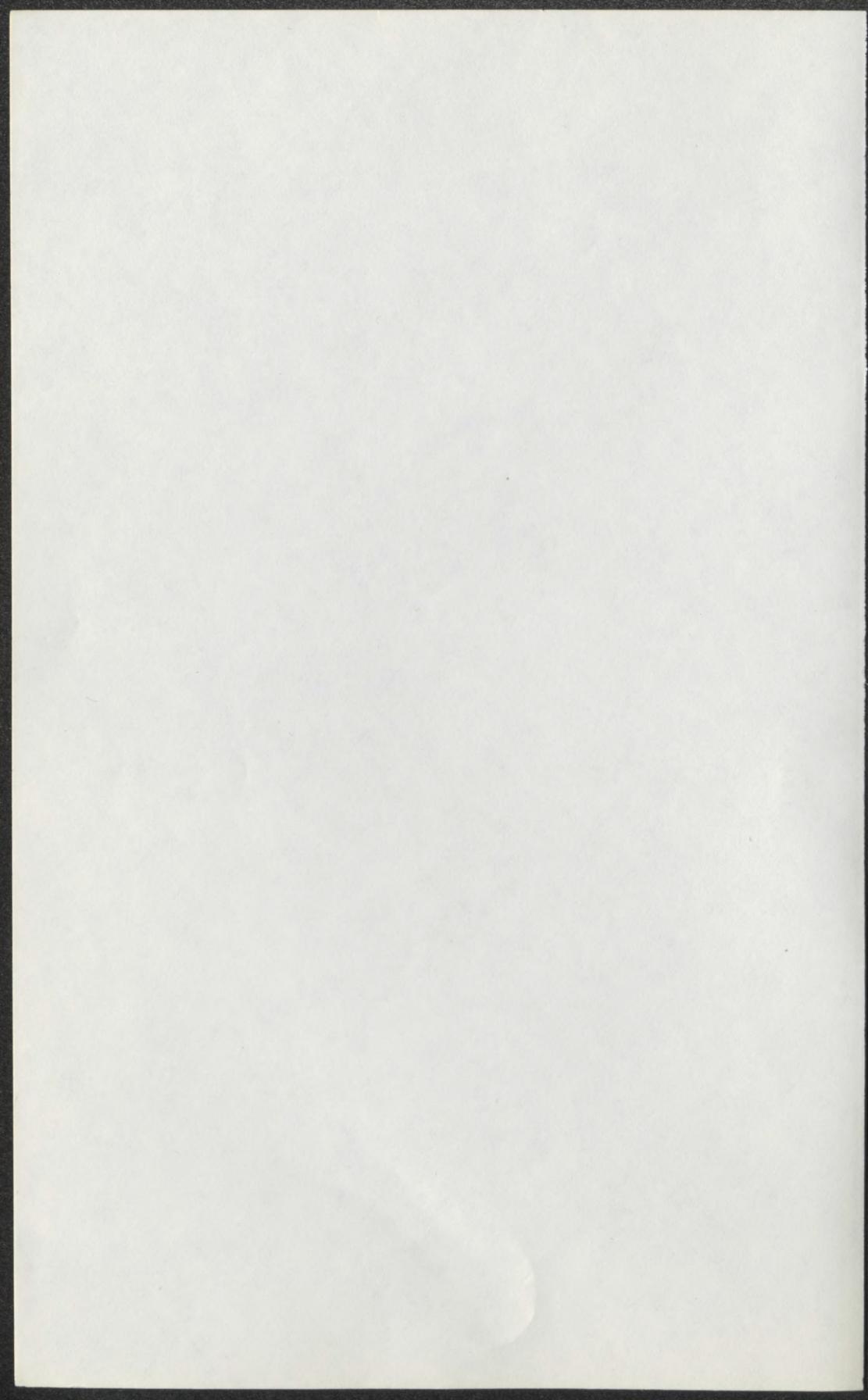


Assistant Secretary
for Economic Development













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