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EXTENSION OF THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965

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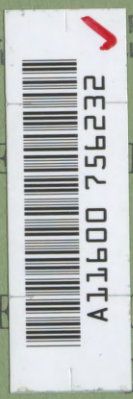

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
RE... L AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON
E... ONMENT AND PUBLIC WORKS
UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 914

A BILL TO PROVIDE PUBLIC WORKS, BUSINESS FINANCING, AND OTHER DEVELOPMENT ASSISTANCE TO ALLEVIATE ECONOMIC DISTRESS

S. 971

A BILL TO AMEND THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT TO PROVIDE ECONOMIC DEVELOPMENT ASSISTANCE TO REGIONS SUFFERING FROM INCREASES IN ENERGY-RELATED EMPLOYMENT

APRIL 10, 24, AND 25, 1979

SERIAL NO. 96-H13

Printed for the use of the Committee on Environment and Public Works

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U.S. GOVERNMENT
INFORMATION
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EXTENSION OF THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965

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OF THE

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CONTENTS

OPENING STATEMENTS

Page

Burdick, Hon. Quentin N., U.S. Senator from the State of North Dakota .. 1, 203, 357
Randolph, Hon. Jennings, U.S. Senator from the State of West Virginia 9

LIST OF WITNESSES

APRIL 10, 1979 (p. 1)

Robert T. Hall, Assistant Secretary for Economic Development, Department of Commerce, accompanied by Harold W. Williams, Deputy Assistant Secretary for Economic Development; George T. Karras, Deputy Assistant Secretary for Operations; and Victor A. Hausner, Deputy Assistant Secretary for Policy and Planning 2
Prepared statement 58
Martin, Vernon D., executive director, Coastal Area Planning and Development Commission, Brunswick, Ga. and president, National Association of Development Organizations, accompanied by Aliceann Fritschler, executive director, National Association of Development Organization 52

APRIL 24, 1979 (p. 203)

Birch, David L., professor MIT program on neighborhood and regional change, Cambridge, Mass 224
Prepared statement 315
Boland, F. Kevin, Associate Director, Energy and Minerals Division, General Accounting Office, accompanied by Flora H. Milans, Assistant Director, Energy and Minerals Division, General Accounting Office, and Donna M. Lavigne, Supervisory Auditor, Energy and Minerals Division, General Accounting Office 248
Chinitz, Benjamin, director, Center for Social Analysis, State University of New York at Binghamton 245
Prepared statement 338
Holman, Carl, president, National Urban Coalition, accompanied by Paul Pride, Executive Director, Project for Development and Finance of the Opportunity Funding Corp 204
Prepared statement 281
Hunter, J. Steven, chairman, Region Four Planning and Development Council, Summervile, W. Va. accompanied by Larry Bradford, Executive Director and Christina Steinman, National Association of Regional Councils 237
McGuigan, F. Howard, legislative representative, AFL–CIO, accompanied by Henry Schechter, director, Department of Urban Affairs, AFL–CIO, and Arnold Cantor, assistant director, Department of Research, AFL–CIO 211
Prepared statement 298
Peterson, George E., director of finance, Urban Institute, Washington, D.C. 230
Solomon, Arthur F., President, Bradley Corp., Rochester, N.H., representing Associated Builders and Contractors, Inc., accompanied by John Reed, director, Government Relations, Associated Builders and Contractors 278
Prepared statement 352

APRIL 25, 1979 (p. 357)

Page

Barrett, Thomas J., commissioner, Mahoning County, Ohio, accompanied by John Murphy 366
Prepared statement 409
Bartley, Ann, director, Washington office, State of Arkansas, accompanied by Robert Wise, director, Council of State Planning Agencies 384
Crichton, Hon. Ann, mayor, Decatur, Ga 358
Prepared statement 400
Drakeford, Hon. Robert, mayor, Carrboro, N.C., accompanied by Roy Dugger, executive director, American Association of Small Cities 381
Prepared statement 448
Liner, Blaine, executive director, Southern Growth Policies Board 395
McKee, Franklin D., executive director, Hartsville Project Coordinating Committee, Trousdale County, Tenn., accompanied by Mark Croke, National Association of Counties 371
Meshel, Hon. Harry, State senator, State Legislature of Ohio 374
Prepared statement 430
Zogry, Arnold, assistant secretary of administration, State of North Carolina, appearing for the National Governors' Association, representing Governor Hunt of North Carolina 393

ADDITIONAL MATERIAL

Bills, reprints of:
S. 914 133
S. 971 199
Boland, F. Kevin, Associate Director, General Accounting Office, statement relative to energy impact assistance 262
Hall, Robert T., Assistant Secretary of Commerce, material supplied by:
Summary of EDA's industrial parks study 19
Statement regarding energy impact assistance 31
Responses to written questions 34
Statements supplied for the record:
D'Alessio, Walter, executive vice president, Philadelphia Industrial Corp .. 125
Grasso, Hon. Ella, Governor, State of Connecticut 479
Hunt, Hon. James B., Jr., Governor, State of North Carolina 470
Lamm, Hon. Richard D., Governor, State of Colorado 485
National Governors' Association 485
United States Conference of Mayors 497

EXTENSION OF THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965

TUESDAY, APRIL 10, 1979

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT,
Washington, D.C.

The subcommittee met, pursuant to call, at 10 a.m., in room 4200, Dirksen Senate Office Building, Hon. Quentin Burdick (chairman of the subcommittee) presiding.

Present: Senators Burdick, Randolph, and Gravel.

OPENING STATEMENT OF HON. QUENTIN N. BURDICK, U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

Senator BURDICK. Good morning.

Today is the first day of 3 days of hearings on S. 914, the National Public Works and Economic Development Act of 1979. This is the administration's bill, introduced in the Senate last Thursday. The second and third day of the hearings will be on April 24 and 25. Markup on the legislation by the subcommittee is slated for the first days in May. The bill, or some version thereof, must be reported to the Senate by May 15.

The bill represents the culmination of a good deal of work and reflection by the administration. We are fortunate this morning in having EDA's Administrator, Assistant Secretary Robert T. Hall, provide us with an interpretation of it and respond to questions regarding its content.

I think it is useful to point out that this year's Economic Report of the Joint Economic Committee is newsworthy because it is a unanimous report, something that hasn't happened with that committee in 20 years or more. It is a cautious report, identifying the seriousness of inflation and the need for restrained Federal spending. The report, however, does call for modest increases in spending for economic development programs. I think the budget committees respected that point of view and will likely recommend ample authority to fund the President's EDA budget request.

Is there something new about this legislation? I'm told that the tools are much the same—tried and tested—public works grants, business loans and guarantees, planning grants, and technical assistance. I'm told that it rearranges that old act to give EDA better management capability and the general public greater understanding of economic development programs. The present law is complex and confusing, with amendments added at each authorization round like ornaments on a Christmas tree.

We were told by the President that he will not propose a national development bank, rather that the functions of the bank will be incorporated with EDA's business development program. In the January budget, the Commerce Department share of the bank totaled over $3 billion. But S. 914 requests a modest $569 million in budget authority for loans and guarantees and interest subsidies. Some of the more exotic functions of the proposed bank are, thank heavens, not included in S. 914.

But in the increase in assistance to business is substantial. Because of that expansion this committee has had to share jurisdiction of that part of the bill, title III, with the Senate Banking, Housing and Urban Affairs Committee. While we do not have jursidiction of that title, I believe we should examine this title as if we had jurisdiction. The warp and woof of economic development is public works, business development, planning and technical assistance. It is unfortunate that we will be unable to consider them together this year. At the same time, I am certain that we will gain from the experience and recommendation of the Banking Committee as it considers title III.

Following Mr. Hall, we will hear from Mr. Vernon Martin, speaking as president of the National Association of Development Organizations. This is an association of economic development districts that assist in identifying worthwhile projects for EDA and serve a variety of planning and development purposes.

Following Mr. Martin, the president of the Council for Urban Economic Development, Mr. Walt D'Alessio, will bring the views of that national organization on this legislation from the point of view of the city and its needs and opportunities.

We have two subcommittees holding hearings this morning. At 9 a.m. this morning the Nuclear Regulation Subcommittee began its hearing on the Three Mile Island accident in order to accommodate some overlap of our members.

We will now proceed with an old friend and a friendly face, Robert Hall.

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

Mr. HALL. Thank you, Mr. Chairman. It is indeed a great pleasure to be here this morning to outline what I think is one of the more imaginative and substantial initiatives that the administration has undertaken, and that is on the proposal for the National Public Works and Economic Development Act of 1979.

On April 4, this legislation, along with a Presidential message on economic development, was submitted to the Congress.

As indicated in the President's message:

This legislation will help strengthen the economic development of distressed urban and rural communities. It will provide new private sector jobs and badly needed income to the citizens of these communities. It will strengthen their tax bases and attract new

private investment. It will help these communities support essential public services without imposing high property taxes on their citizens. And it will help these communities and their citizens become more self-sufficient in the future.

Despite a period of strong economic expansion, there are numerous rural and urban areas that have not participated fully in our Nation's economic health. These areas still have high unemployment, low average incomes, substantial poverty, and loss of jobs. They do not have enough private investment to provide jobs to their residents, nor do they have the tax base to support essential public services.

The problems of these rural and urban communities have not been solved fully by national economic policies. These communities require special targeted aid to bring in new private sector jobs and investment. Only with this targeted assistance can we be assured that all areas of our Nation, both rural and urban, will participate in the Nation's economic prosperity.

This legislation marks the coming of age of Federal economic development policy. It is founded on an important lesson learned during the past two decades: That is, the billions of dollars legitimately spent on social welfare and community improvement and fiscal assistance programs must be accompanied by sufficient jobs generated in the private sector in order to create real and lasting benefits for economically distressed people and places. The President's decision embodies a fullscale recognition of the enormous social, physical, and economic costs borne by many areas of the country where obstacles to private investment result in disproportionate unemployment and low incomes. The National Public Works and Economic Development Act provides the Nation with a significantly enhanced, comprehensive, and focused program of economic development assistance to help these areas overcome the obstacles to private investment and private sector job creation.

President Carter's initiatives also symbolize a new era for EDA. These initiatives build on the long and substantial experience of EDA in responding quickly and effectively to many different economic problems in many different types of places. They capitalize on EDA's placement within the Department of Commerce, which handles international trade problems, export promotion and productivity improvement—all of which have a direct relationship to declining industrial sectors and distressed regional and local economies. And they contemplate a level of resources for EDA which will enable us to make an even greater contribution toward fulfilling the mission established for the Agency in 1965 by the authors of the Public Works and Economic Development Act.

Before I move on, I must acknowledge the instrumental role played by this committee in building the foundation on which the President's recent economic development decisions rest. You, Mr. Chairman, and members of the committee, have been steadfast in your efforts to foster and defend the concepts and practices of economic development through the many years when they were ignored or even attacked by other policymakers. This committee had the foresight to understand the key role economic development should play in the domestic policy of this Nation. We look forward

to working with you in the months ahead to secure the passage of this most important legislation.

The legislation we bring you today represents a distillation of EDA's experience under PWEDA. We believe that the principles which evolved under PWEDA are fundamentally sound and should form the framework for the expanded Federal economic development effort of the 1980's. Thus, while the new PWEDA restructures current authorities under fewer titles and contains simplified qualification criteria and expanded business finance authorities, most of EDA's basic policies, program and operating procedures are continued.

Perhaps it would be useful for me to highlight what features are the same and what are different.

Features that are the same:

Areas still have to be designated, and they will have to prepare overall economic development programs—OEDP's—which EDA will have to approve, prior to funding for most programs, OEDP's will still have to be prepared under the direction of a committee which includes representation from the private sector and minority groups.

EDA will still designate and fund multi-county economic development districts.

Unemployment and low income will still be major factors in whether or not an area can be designated.

Planning grants can still be provided to States, districts, Indian tribes, and local governments, whether or not they are eligible for designation.

Adjustment planning grants can still be made to areas suffering from economic dislocation.

Grants can still be made for up to 80 percent of the cost of public facilities required for economic development in eligible areas.

Grants can be increased to 100 percent for Indian tribes or for eligible local governments or development organizations which can demonstrate that they have effectively exhausted their taxing, fundraising or borrowing power.

Bonus grants of 10 percent—but in no case exceeding 80 percent, except as above—may still be made for projects in development districts.

Technical assistance is still available to the same types of eligible applicants for the same types of purposes.

Direct loans and loan guarantees are available to businesses when other financing is not available.

Grants are available to areas suffering from economic dislocation.

Grants are available to local governments for revolving loan funds.

Research and demonstration projects are authorized.

Public Works Impact Program—PWIP—projects are authorized.

There are some features that are different, and these include:

Eligibility criteria have been sharpened and improved so that definitions of distress are easier to understand and more pertinent to present circumstances. Areas previously denied designation which deserved to be eligible will now be eligible. Areas previously designated which do not need help will now be ineligible.

Authorizations and the 1980 request for appropriations are greatly expanded for all of EDA's major programs, including facilities grants, loans, loan guarantees, planning and technical assistance.

Public facilities grants can be made in two increments, first for design and engineering and then for construction. This will reduce the incidence of overruns.

Grants can be made to public bodies to help defray as much as 15 percent of the cost of expanding or locating a private enterprise.

Direct loans can be made for up to 75 percent of the cost of a project.

The loan guarantee program is greatly expanded. Loan guarantees specifically will carry full faith and credit of the U.S. Government as to both principal and interest, and once made, will be incontestable. This will facilitate a secondary market, but if the secondary market lags, loan guarantees can be sold to the Federal Financing Bank.

Interest subsidies will reduce the interest rate on both guaranteed and direct loans by seven percentage points but not below three percent.

Pockets of distress in otherwise economically healthy areas, both urban and rural, can be designated.

Mr. Chairman, the legislation retains EDA's commitment to balanced economic growth. It retains our responsiveness toward the different types of structural economic problems which are experienced in both rural and urban areas. The increase in public works and business finance resources proposed for EDA will greatly enhance our ability to meet these principles of balance and responsiveness.

We believe the restructuring and streamlining of PWEDA to be a necessary partner of these new resources in order to improve the program's impact and administrative efficiency.

My intent today is to provide details of the proposed legislation, which incorporates into the present EDA program the features and the resources of the previously proposed National Development Bank. As you know, the President will later be submitting a reorganization plan to Congress in order to transfer to EDA the business and industry program now administered by the Farmers Home Administration and SBA's local development corporation program. I think it is important to note the opportunity provided by the President's decision to coordinate and supplement the types of assistance offered through the Farmers Home and SBA programs with the broad array of help which will be available from EDA. Such packaging will greatly increase the benefits accruing to recipients of Farmers Home and SBA assistance and will be supported and accompanied by an expanded EDA delivery system which I will describe later in my testimony.

Let me offer one example of what I mean, Mr. Chairman. Many studies have shown that the absence of managerial talent is one of the more important reasons for business failure in the U.S. This problem is very apparent in many rural areas where small-scale firms which form the entire economic base of a community often lack the management skills to operate profitably or expand their businesses. In these cases the loan guarantee assistance available through the B&I program of Farmers Home is not enough. EDA

would be able to supplement the B&I aid through the special private sector oriented technical assistance provision contained in our proposed business finance title. We have developed significant expertise in this field through the use of technical assistance in the trade adjustment assistance program, as well as through our university centers. In addition, of course, EDA's public works authorities could be used in conjunction with business finance and technical assistance to provide an even greater incentive to private investment.

Eligibility and designation.—As I mentioned a moment ago, Mr. Chairman, we intend to maintain EDA's basic approach to eligibility. Our thinking about this issue has been directed toward five principles: Responsiveness; balance; targeting; simplicity and flexibility.

Responsiveness.—EDA is the principal Federal economic development agency. As such it must be responsive to the different forms of structural economic problems.

Balance.—The agency's eligibility should be balanced, showing a reasonable distribution by size and type of place, between urban and rural areas, and among the regions. Balanced national growth and economic development are fundamental to the overall health of the economy and we will continue to aim for their achievement.

Targeting.—It is also the policy of this Administration that scarce public resources should be targeted to the people and places most in need. Areas will not be excluded arbitrarily, but we intend to serve only those areas that clearly demonstrate significant economic problems as determined by standards that are equitable both nationally and regionally.

Simplicity.—It is important to use criteria that are straightforward, simple and administerable.

Flexibility.—And finally, we must maintain the flexibility to make investment decisions appropriate to the needs and opportunities of a particular place.

I might add, Mr. Chairman, that we have also been sensitive to the need to minimize the disruption of our ongoing program.

Given our goals we examined the current qualifications system and the one proposed for the National Development Bank last year. We found that neither was wholly satisfactory. The bank factors failed to meet our tests of responsiveness, balance and simplicity.

Turning to the existing EDA qualification system we concluded that its basic principles were sound but it had become an administratively unwieldy and confusing system which did not adequately reflect the current patterns of need around the country.

I believe that the criteria we have developed do a better job of accomplishing the principles we have set forth than either the current system or the one proposed earlier for the bank. This country, as I see it, has regional and local economies in several stages of development; many areas have different structural problems. We propose a range of eligibility factors for the different types of economic situations for which EDA has responsibility. These situations are: One, chronic problems of decline in developed economies; two, persistent underdevelopment and low incomes; three, incipient economic deterioration; four, sudden and severe

economic dislocations; and five, highly localized and concentrated distress.

Let me briefly comment on each of these five types of economic distress.

Chronic problems of decline.—For developed economies continued high unemployment is the core problem and the proper indicator. Accordingly, we propose 5 years of unemployment at a rate above the national average to qualify areas with chronic unemployment. To identify absolute decline we propose to use job loss over 5 years.

Persistent underdevelopment.—Underdeveloped and developing areas have different indicators of poor economic performance. Most people may be working but they are underemployed, or there may be persons who are simply left out of economies which appear to be generally healthy. In such cases, overall statistics for a place mark what is, in effect, a dual economy—one healthy, one in poverty. Low income and underemployment are the problems in these areas, and we propose to identify them through the use of two separate income measures: One, those whose per capita income does not exceed 80 percent of the national per capita income average for the last available year; or, two, those where the proportion of population in poverty is in excess of 16.5 percent. In addition, the criterion which uses absolute job loss in areas of chronic decline will also bring in rural areas that find their traditional economies declining.

Incipient economic deterioration.—For areas with acute unemployment problems which have developed more recently and which may indicate long-term decline, we propose to use 2 years of unemployment which is at least 1 percent above the national average rate using 7.5 percent as the minimum unemployment level.

Sudden and severe economic dislocation.—EDA proposes to continue the current practice of making areas eligible for assistance when they have sudden and severe economic hardship and require adjustment assistance. Eligibility criteria for this type of problem measure the loss of a certain proportion of jobs in relation to the type of area—either rual or urban—and the overall level of unemployment. These criteria have already developed for the current title IX Sudden and Severe Economic Dislocation program and will remain the same under the new legislation.

Pockets of distress.—Finally, we propose to continue making it possible for small areas—both rural and urban—to become eligible through a pockets of distress provision. This provision would allow distressed areas within healthy cities and distressed small communities within healthy counties to become qualified if they meet one or more of the criteria for regular qualification—that is, high unemployment, low income, or net job loss.

In certain situations, the above proposed eligibility criteria would be adjusted by two modifications:

First, in some perculiar circumstances an area might meet one of these tests and still be quite well off. We should not offer economic development aid to those places, and so we propose not to qualify any area where the per capita income is 125 percent or more of the national average.

Second, we propose to continue the Agency policy of not contributing to over-stimulation of local economies, where economic

growth is especially strong and expanding. We will not offer unneeded aid in instances where unemployment is simply a sign that a growing economy needs time to absorb new workers. Unless a place has extremely high unemployment—that is, 175 percent of the national average—it would not qualify under our proposal if job growth has been greater than 200 percent of the national rate over the past 5 years.

That summarizes our basic eligibility system for redevelopment areas. Let me now make a few comments about the pattern of results produced by these criteria. Much more detailed information will soon be made available to you. However, we cannot present final figures at this time because we are still refining the data and making additional analysis.

The criteria we are proposing would qualify redevelopment areas containing about 59 percent of the Nation's population. That compares with 42 percent under what were the National Development Bank factors and about 81 percent under the present PWEDA designated areas. Almost 69 percent of the nonmetro or rural population would be in qualified areas under the new act, and 55 percent of the population in urban areas. A large proportion of the eligible urban population would be concentrated in core urban counties.

These figures do not reflect the designation of pockets of distress, adjustment areas or development areas. We estimate that the addition of these areas would raise the proportion of eligible population by just a small percentage.

In addition, in considering the reduction in eligible population under NPWEDA as compared to PWEDA, it should be noted that some 24 percent of the population of currently designated areas are not presently statistically eligible and would not be eligible under the proposed NPWEDA eligibility criteria. Thus, 80 percent of the population which will lose eligibility for assistance under NPWEDA are not presently statistically eligible under PWEDA.

When we have the final regional results, I think you will see the shape of economic development needs in the country. Unlike the National Development Bank, which was skewed to industrial areas facing severe decline, the criteria developed for NPWEDA have a responsive and balanced distribution outcome that also recognizes the continued poor economic performance of underdeveloped rural areas.

In addition, the proposed factors include all of the top 30 cities classified as most distressed in a study done for EDA and 47 of the most distressed 50. This targeting exceeds that achieved through the bank criteria.

In summary, following the NPWEDA eligibility principles and criteria, EDA will be able to focus its assistance on the diverse group of truly economically distressed rural and urban areas and communities distributed throughout all regions of our country.

Senator RANDOLPH. Mr. Chairman, I do not wish to break the continuity of Secretary Hall's very detailed statement but I have been asked to chair the Committee on Veterans Affairs. Dr. Kuhn who heads our medical school at West Virginia University is appearing there. Understandably, when someone is from your own State, you respond to that request.

I would not take longer than perhaps 2 or 3 minutes to give my own statement which I could not give earlier. We are all interested in our hearing on nuclear regulations which began at 9 a.m. We are trying to cover a wide range of subject matters which have been given to us.

Senator BURDICK. Yes.

OPENING STATEMENT OF HON. JENNINGS RANDOLPH, U.S. SENATOR FROM THE STATE OF WEST VIRGINIA

Senator RANDOLPH. I think it goes without saying, but I will say it again, I am a strong advocate of the Public Works and Economic Development Act which has shown a great ability to respond to regional and local development problems in the 14 years of its existence. It has been proven in the State of West Virginia and throughout the country because it has been able to respond and respond constructively to regional and local development problems, and we will continue to have those problems. Those problems are going to be with us and EDA is the agency having proven itself now and it must be expanded or continue at least to be a strong and viable force in the community.

For 14 years, EDA has been in existence, and there are many, many communities that know, that EDA has provided for that infrastructure that, that catalyst, which has been so important in the development of positive programs. Grants to many communities have provided the facilities necessary to attract business and thus economic growth and stability. This activity must be carried forward into the future and the legislation which this committee reports will address these issues.

I underscore again that I am going to be very selective in the Senate in certain cuts that are requested, even by the administration in reference to programs that might give us a smaller budget, as we face our responsibilities to our constituencies.

I will be working for EDA, that it be carried forward, that it move into the future, and, Mr. Chairman, with your help and the help of other members of this committee we look at the facts and move ahead.

No less important, however, is managing and technical assistance from EDA to the communities. I think that activity is essential for what I call a rational and well-reasoned development policy in those areas which are faced, and still face, high unemployment and severe, crucial economic problems.

Of equal importance to this effort would be the business financing activities of the agency in many communities in West Virginia and elsewhere. We have had companies which had announced publicly that the plants had been closed or were in the process of closing. EDA moved in, provided the loans, and the plants remained open.

We have one now that closed—in Clarksburg, W. Va., in Harrison County. Now it is Brockwell. It is a glass company. We can document 1,100 workers which are involved.

We only look back for a moment to know the challenge of this project, putting it together, but we do know another glass company in the area—that is 'Forco' with 700 or 800 employees. It would not be an operation today without EDA. The company is now doing

well, better management, better marketing, better processes, and better products. All this came about through cooperation.

I will not go into the other cases in West Virginia where the aid given by EDA has been dramatic. But beyond that it has been cooperative aid. There are those who sit with you at this table who know what I am talking about. Is Mr. Karras here?

Mr. KARRAS. Yes, sir.

Senator RANDOLPH. You know in the last few days of the Brockwell problem we were encouraged. There was HUD participation and local community interest as well. We retained jobs, we kept communities thriving, and the vested dollars which pay back more than are actually loaned, in an economic well-being.

If I talk a lot about West Virginia, it is because I know that situation intimately.

The administration has recommended a substantial increase in the work carried out by EDA in this area. However, that portion of the administration bill has not been referred to this committee because it has been determined to be aid to business and industry which is in the jurisdiction of the Senate Committee on Banking, Housing and Urban Affairs. I, as well other members of this committee, are still vitally interested in this particular program, because of the potentials to mollify economic hardships where plant closing have been proposed; and not only have they been proposed, but are underway.

And so, Mr. Chairman, the Public Works and Economic Development Act demonstrates that the Federal assistance for economic development purposes is a viable Federal program, and one which must be continued.

I know the members of this subcommittee and the full committee will look carefully at the administration proposal for the consolidation of the PWEDA program. We will particularly focus on the eligibility criteria established by the administration proposal and in the consolidation into title II of both public works grants and adjustment assistance.

I know that Chairman Burdick and the members of the full committee are going to continue studying your testimony. The other witnesses who appear and testify will help us in determining what we should do. These are not cursory hearings. These are important hearings, and out there across this country there are scores and scores and hundreds and hundreds of communities that need the benefit of what will flow from this committee and from the Senate as a whole.

Thank you, Mr. Chairman.

Senator BURDICK. The Senator from Alaska, Senator Gravel.

Senator GRAVEL. Thank you, Mr. Chairman.

I want to share the same sentiments expressed by the chairman of the subcommittee with respect to his warm feelings toward you, Mr. Hall, and your agency. I share that view, and have had great experience with the chairman and certainly applaud the good work you have done.

There are two areas of interest here.

One is in the total budget that we have received for Alaska. We have been faced with a steady decline in funding—under title I in 1976, we received $4.7 million. In 1977, we received $3.5 million. In

1978, Alaska received $3.2 million. I have difficulty squaring that, and I appreciate the demands on you fiscally, but I have difficulty squaring that with Alaska, which has the highest unemployment in the Nation. Fairbanks has 18 percent unemployment, and Anchorage and the rest of the State is at 12 percent. There are areas in the State where unemployment is in excess of 50 percent. The communities primarily impacted are, of course, the Native communities, and I wonder if some thought couldn't be focused on a set-aside.

Another area is more of a question. Last December 1st, the President set aside for no economic activity 56 million acres of land in Alaska. This is going to have a sizable adverse economic impact on parts of the State, on guides, hunters, trappers, and loggers, and that will contribute to the unemployment rolls.

Whenever that happens in the private sector the Government comes in with a plan. I would like to know if there is a plan by the Government with EDA to render some type of plan to assist these individuals who number 200 to 2,000 who will be impacted in the coming year.

I would like to know whether there is some economic aid for these people, as we do when people are hurting in the private sector from dislocations.

Mr. HALL. I have no firsthand knowledge in terms of what is underway, but you are talking about things EDA can do and has done. We think that doing something about economic dislocation and unemployment are major responsibilities of this agency. As you know, the expansion of the Redwood National Park in California is one case in which we have been involved in trying to address the dislocation. We stand ready to help on that and follow up with the Interior Department to find out what is available.

Senator GRAVEL. I would appreciate that and if you would let us know that would be fine. And if Interior has not been sensitive, I would appreciate it if you would be sensitive and put forth recommendations that we could consider.

Thank you, Mr. Chairman.

Senator BURDICK. Mr. Hall, you may proceed.

Mr. HALL. *Planning and technical assistance.*—The planning and technical assistance authorities contained in title I of the new legislation are essential to EDA's comprehensive economic development program. A good planning process produces the essential framework for subsequent decisions about the nature and location of public investments which stimulate private sectors activities.

A number of important principles about economic development capacity building are at the foundation of the title I provisions. The first is the need to build capabilities at all governmental levels to take effective action, regardless of a place's current economic condition. Local and regional economies are constantly changing; a growing, healthy local economy needs to manage its economic growth and deal with economic problems which emerge. For these reasons, all States and local governments are eligible for planning and technical assistance. This will also make it possible for us to help communities plan for economic development before their economies deteriorate to the point where they require more costly Federal hardware investments. We will continue, however, to give

priority to the planning and technical assistance needs of distressed areas.

A second principle is the need for an economic development planning process which involves the private sector and representatives of the distressed population—including minorities. This has been a hallmark of the EDA program and has been important in developing successful local economic development programs. This process is retained and strengthened in the new legislation.

Title I also emphasizes the production of useful, practical strategies that guide the investment of economic development and related resources, such as manpower and transportation; that leverage private investment; and that target resources to distressed populations. Strategies have always been a component of the OEDPs produced by Economic Development Districts and local governments. But our CEDS demonstration has begun to show us that greater attention to the strategy element can benefit both the locality and EDA.

We will not require complex, sophisticated strategies for areas whose economic development needs are relatively simple. We will handle the application of OEDP/strategy requirements flexibly in order to respond to areas with different needs and capacities. We will also work to have other Federal agencies accept an area's economic development strategy as a guide for Federal investments that affect economic development.

Finally, title I reflects the need to involve all governmental levels in a process which identifies consistent and coordinated activities which are appropriate to each level. There should be constant communication and coordination among States, sub-State regions, and local governments in order to address issues which transcend jurisdictional boundaries.

The specific provisions of title I authorize grants to State and local governments, sub-State planning and development agencies, and Indian tribes in order to conduct long-term economic development planning programs. The title also provides for assistance to governments and private agencies to prepare adjustment plans for areas facing sudden economic dislocations. All areas are eligible for project specific technical assistance activities. Finally, the title includes authority for EDA to give planning funds to sub-State regional planning and development agencies which, either by choice or by statistical ineligibility, do not participate in the District program.

Public works grants.—The NPWEDA would consolidate in title II all of the important public works authorities previously included in titles I, IV, and IX of the current legislation. This consolidation will make administration of grant authorities more efficient and will simplify access to assistance by States and localities. EDA continues to believe that public works activities are critical in achieving an environment conducive to private investment, and we expect with expanded funding to be able to help more distressed areas than in the past. Public works grants would be available to designated communities and States facing chronic or incipient economic distress as well as to communities experiencing various economic adjustment problems. The States would also be able to use

these grants to support projects and programs under State Investment Strategies approved by EDA.

The same type of public works activities that are eligible under the current law would be eligible under NPWEDA, that is, the design of public facilities, land acquisition and site preparation, construction and rehabilitation of public facilities and special projects to provide immediate jobs for the unemployed. In order to minimize cost overruns and improve project planning, the new legislation allows grants to be made in two steps—first to design and engineer public facilities and second to proceed with construction. This change will also respond to the needs of poor, small communities which often lack the resources to cover design and engineering costs prior to EDA grant approval.

Under the new legislation, EDA would have explicit authority to provide incentives to private firms, normally in conjunction with other EDA business finance aid, through grants channeled through the local public sector. This is one of the most powerful means of reducing capital costs to a firm wishing to expand, remain or locate in a distressed place. Grants will be especially useful in those areas where site assembly and preparation are costly. The local public sector could use these grants to acquire and develop land, to construct, expand or improve commercial or industrial facilities, to pay for related machinery or equipment, and to improve public infrastructure. The assistance would be limited to 15 percent of the capital cost of an eligible private sector project.

Finally, title II will allow EDA to make grants to States and eligible local governments to establish revolving loan funds for economic development purposes.

The resulting State and local business financing programs will help firms that have difficulty gaining access to local financial markets. It is expected that revolving loan funds will assist the expansion or retention of existing firms of all kinds, including new technology-based businesses.

Development finance assistance.—I appreciate that the Senate Banking Committee will also have authority over this area, but I think it is important to this committee.

The business finance authorities in title III of the new legislation form the basis for a comprehensive economic development finance program. The purpose of this program is to provide incentives that will encourage the expansion, retention, or location of private investment in distressed rural and urban areas of the country. This will be accomplished through the flexible application of the business finance tools, in tandem with other EDA authorities, to fill the credit gap for private firms operating in distressed areas to reduce the extra costs associated with private investment in such areas.

Through EDA-sponsored research efforts we know that many smaller and medium-sized firms that contribute a significant share of the employment in distressed areas do not have access to long-term capital due to characteristics such as their size or ownership structure. The higher cost of credit in economically declining or underdeveloped areas combines with the reluctance of many private lenders to make long-term loans for commercial or industrial purposes to produce severe obstacles for many firms. In particular,

46-633 O - 79 -- 2

firms in distressed rural areas may have capital access problems because small, rural banks may lack liquidity.

This credit availability problem is an important target of our proposed development finance program. Additionally, firms willing to locate in economically troubled areas may need subsidies to offset higher operating costs and the other adverse business circumstances of life experienced in distressed areas. Locational incentives can be important as a method of stabilizing an area's economic base and preventing cumulative decline which is neither socially beneficial nor economically efficient.

Since the nature and degree of development finance problems vary so widely, an effective development finance program must be flexible and multifaceted. Thus, title III of the proposed legislation contains authority for direct loans, loan guarantees, and interest subsidies, together with sufficient funding to enable a greatly enhanced overall effort.

The business finance assistance will be coordinated with grants under title II to help defray associated business project costs and with technical assistance under title I for feasibility studies and entrepreneurial aid. The funding authority earlier set aside for a liquidity facility in the National Development Bank will be moved into the loan guarantee portion of the new legislation, where its purpose can be accomplished more simply and efficiently.

I might add at this point that there has been a lot of confusion about the National Development Bank. I would like to state for the record that the National Development Bank is dead and gone. The administration proposed the bank last year, and money was put in the budget to cover the National Development Bank. But the President's decisions are one, not to proceed with the National Development Bank, but build upon the experience of EDA and, two, to fold the functions and resources of the Bank into EDA. If I am a little emphatic on this point, it is because unfortunately we haven't had time to communicate with as many Senators as we would like on what the change from the National Development Bank is. Indeed, the Bank no longer exists in concept or idea.

I would like to summarize the remaining part of my testimony, and of course submit it in its entirety for the record.

In terms of research and development under title IV of the act, we are certainly interested in giving ourselves the flexibility to undertake considered and well-structured demonstration programs, and title IV will provide for that.

Another important concern is the question of organization and delivery systems of the program. You and I have had several discussions on this topic, and it is our intention to develop a delivery system with the standard authorities and resources that would be accessible and useful to all parts of the country and to all eligible communities. It is clear that the anticipated increase in resources will require a comparable increase in delivery system staff, resources, et cetera, on the part of the agency. We are in the process of developing an administrative organizational proposal for OMB's review; it will soon be appearing before the Appropriations Committee.

In the course of seeking an amended budget for EDA, we will be making an appropriate request in the administrative and staffing area.

I would like to just mention the proposed transfer of the Farmers Home Administration and the Small Business Administration programs. We anticipate using the existing network of the Farmers Home Administration and the SBA as part of our delivery system. We are requesting appropriations of $1.3 billion for fiscal year 1980 to implement the new legislation. I wish to underscore, however, that we are in the process of refining our request. Once approved by the President, we will be submitting a formal budget amendment requesting exact funding levels. The $1.3 billion consists of the $552 million already requested for our on-going grant and loan programs and an additional $788 million in increased resources. This request, combined with the authority to guarantee $1.8 billion in private-sector loans, will allow EDA in fiscal year 1980 to provide more than $3.1 billion in total economic development assistance to distressed areas.

With regard to the loan guarantee authority, I want to call to your attention the new approach to debt management reflected in NPWEDA. This approach involves setting limits in the authorizing legislation on the face value of loans that can be guaranteed in any one fiscal year. It also requires that agency budget requests include 1-year appropriations to honor demands in that year or previous years. Other features of this new system are authority to draw on the general fund of the Treasury to meet any shortfall, and authority for whatever additional appropriations are needed to replenish the general fund.

Conclusion.—I have spoken at some length about what EDA proposes to do under the new legislation. Let me now speak for a moment about what we do not intend to do:

We do not intend to initiate a complete overhaul of the way EDA has carried out its program effort over the past 14 years. That way has proved to be highly successful in providing communities and areas with the opportunity to set their own agendas for economic development action and in responding flexibly to the requests for assistance that grow out of those action agendas.

We do not intend to bring new areas or communities into the planning assistance program at the expense of those already receiving assistance. It takes several years to build an economic development planning capability at the local level, and in the case of the districts, EDA has found that continuous administrative support is needed to assure effective operations over the long term.

We do not intend to use a new set of eligibility criteria and new legislation as a reason to focus most EDA resources in particular types of communities or regions of the Nation. The same types of program considerations which form the framework for our current allocation of resources will be used to determine allocations under the new legislation.

Finally, Mr. Chairman, we do not intend to undertake any revisions of EDA regulations and procedures to implement the new legislation without prior consultation with this committee and its staff. I am confident that we can work together to enact this legislation. We seek your assistance in designing a program that

will build upon the success we have had in the sixties and seventies in order to fashion a national economic development effort which will serve the Nation well in the eighties.

Thank you, Mr. Chairman.

Mr. Chairman, I would like to submit for the record the following items, if I may. One is a copy of President Carter's message on the National Public Works and Economic Development Act—NPWEDA. The second is an overview description of NPWEDA. I call it the English language version. Third, the comparison of the proposed National Public Works and Economic Development Act with the existing Public Works and Economic Development Act. Fourth is a table describing various aspects of the eligibility system. Five is a description of the expanded EDA business financing program and, six, a summary of research findings important in the National Public Works and Economic Development Act.

I suggest that these documents provide important background and reference material for the administration's program.

Senator BURDICK. Without objection, these will be received for the record.

[The items referred to may be found on pp. 88–124.]

Senator BURDICK. Thank you for your testimony. Title I is planning; title II is action; title III is dispute; and title IV is innovation.

Mr. HALL. And title V is making it happen.

Senator BURDICK. I think your organization makes it more effective and more understandable.

We have a few questions. You know that title III is involved in another committee.

Mr. HALL. Yes, sir. We look forward to appearing before that committee this afternoon.

Senator BURDICK. Have you got any bets on the end?

Mr. HALL. Betting on what, Senator?

Senator BURDICK. I hope our team wins.

You do not mention energy impact assistance. Has the administration dropped that?

Mr. HALL. No, Senator, the administration has included in the President's budget $150 million for an energy impact program, and legislation is being submitted by Senator Hart in the Senate and comparable legislation will be submitted in the House.

This legislation has been worked out jointly by the Administration and the Senator and his staff. We anticipate the proposed bill would probably amend NPWEDA and provide an additional title for this program.

We are supportive of this program, and we think such an effort to aid those localities which are impacted by rapidly growing populations related to extraction of needed energy resources is an effort that is the proper response of the Federal Government.

Senator BURDICK. You are aware that the Senate Budget Committee deleted $150 million?

Mr. HALL. I understand this was the line item in function 450. We will see how it goes in terms of the authorization legislation, and we will still have the appropriations process. We are hopeful that Congress in its wisdom will reconsider the initial judgment of the Budget Committee.

Senator BURDICK. I like your choice of words—judgment. When will the reorganization plan be submitted?

Mr. HALL. We are shooting for late April; or early May. Probably more likely in the month of May. Late May.

The problem, Senator, is that the procedures require that no more than three reorganization proposals be on the Hill at any one time. So it is a function of how quickly the Congress moves on other matters.

Senator BURDICK. We are told the South and West are approaching some kind of economic parity, but that the North and the Midwest are now the lacking areas. The migration out of the rural areas has stopped and has been reversed. Metropolitan areas are losing population in some parts of the country. Some suburban areas are showing some decline. What do these demographic trends suggest to you for your programs in the next few years?

Mr. HALL. We have organized the eligibility criteria, according to the wide range of economic circumstances in the Nation. We have identified the major types of economic distress. As indicated in my testimony, one type deals with chronic problems of decline, as demonstrated in the Northeast and in the more mature urban economies elsewhere. Another type deals with the persistent low-income areas typified by many places in the Southeast. Other areas are faced with the sudden explosion of unexpectedly severe dislocations. This bill would give us the flexibility to respond to these different economic situations in ways that will deal with each specific type of distress.

I might add there is one potential problem in the Southwest that concerns me. We are getting information from our High Plains study about the impact of declining water resources. I think in the late eighties and early nineties there is going to be a tremendous impact from the falling water table.

Senator BURDICK. You have no reason to believe your formula will not meet the changes?

Mr. HALL. I think our formula can meet the type of economic distresses that will come about, including population shifts.

In the sixties, the great emphasis on economic development was in public works (water, sewer, and transportation) to aid lagging regions acquire the comparative advantages for development.

SENATOR BURDICK. Is the need for public works still there in the lagging areas?

Mr. HALL. Yes; very much so. Indeed, that is why part of the President's proposal for expansion of the economic development program provides for an additional $275 million in public works grants to be added to the existing $225 million, providing almost a half a billion dollars for public works programs.

Senator BURDICK. EDA has invested in many industrial parks across this country. Do you have any information on how well they have done? For instance, how many tenants or jobs have come to them? Do you find much difference in a 10-year-old park versus a 5-year-old park? How do these publicly owned parks compare to private parks in the competition for tenants? Do you lay down certain requirements for tenants that private parks do not?

Mr. HALL. We have done an evaluation of our industrial parks program, and I would like to submit for the record an evaluation

and summary highlighting our conclusions that respond to specific points you have raised.

[The information referred to follows:]

SUMMARY OF EDA'S INDUSTRIAL PARKS STUDY

Preliminary Draft

May 1, 1979

The current assessment of EDA's industrial park investment is concentrated on economic development districts where a majority of EDA's industrial park investments are located. The present study is based on a sample of 119 industrial parks in 50 of these districts. In selecting a sample, parks that were smaller than 25 acres and less than two years old were excluded. These exclusions allowed the study to focus on parks that are truly multi-firm industrial parks as opposed to single-firm site development activities, as well as being in operation a sufficient period of time to show at least some measure of success. Industrial parks located on Indian reservations were also excluded because of the special economic conditions surrounding these investments.

This study focused on three principal aspects associated with EDA funded industrial parks:

1. the primary characteristics of industrial parks;

2. the identification of factors that affect the performance of industrial parks; and,

3. the importance of EDA-assisted parks in the context of district industrial park land.

Principal findings include:

1. The average park has a utilization rate of 55.2 percent, 270 developed acres, a total cost of $863,000, and EDA cost of $476,000, and four firms having a total of 646 workers. Over 70 percent of the firms located on EDA industrial parks are engaged in some form of manufacturing. Other important industry groups include: wholesale trade (7.7 percent), transportation and communication (5.9 percent), and agriculture (4.3 percent).

2. Utilization improves over time as the district develops, however the size of the industrial park and the kinds of investments made in them need to be more clearly linked to demand for industrial park land in the area. Furthermore, there is the need for greater involvement of EDA-funded organizations, particularly EDDs, in the promotion of industrial parks.

3. In reviewing applications for assistance to industrial parks, the Agency should consider the amount of vacant industrial park land in the district and the rate at which such land has become occupied in the past. No further industrial park investments should be made in areas with large existing inventories of vacant industrial park land

unless the proposed industrial park investment materially increases the supply of specific types of park land or facilities.

The findings provide a number of important questions associated with the future involvement of EDA with industrial parks, as well as the complexity of the decision-making process associated with the location of these parks.

In assessing industrial park performance, the primary measure used was park utilization rate -- the ratio of land occupied by firms to the total developed park acreage. Although this measure may not completely reflect the economic impact of a park on a district's economy, it does reflect its success in attracting firms -- the primary purpose of an industrial park investment.

In this and other assessments of both EDA and non-EDA industrial parks, it has been difficult to identify and quantify the determinants of firm location. An important step toward understanding the industrial location process might involve case studies of individual firms locating in EDA assisted areas. The collection and analysis of information concerning such factors as the identification and assessment of alternative sites, the availability of information, the firm's perspective on the merits of alternative locations, in any quantitative analysis done by firms would better enable the agency to help design activities -- from brochures to industrial parks -- that would more effectively promote economic development.

The present study provides an overview of the development of industrial park land. This analysis does not provide insight into a number of important factors, such as the methods by which firms are attracted to a park during their critical first years of operation, the turnover impacts on EDA assisted parks, how turnover impacts on the local economy and how this is related to changes in the national economy. This type of information would have to be collected through a further and more intense case study analysis.

Mr. HALL. Let me just comment that like most activities there are always mixed results. Our view is that we ought to proceed very slowly in the creation and investment in industrial parks. There will be certain locations and certain situations ideally where that is the way to proceed, and we will continue to proceed. But we want to be very careful in expanding industrial park capacity and we want to pay more attention to utilizing the existing industrial park capacity. The expanded business loan authority in this bill will be helpful in filling up the existing facilities.

Senator BURDICK. EDA has funded employee stock ownership plans or ESOP's. How many? Eight or nine? Can you tell us how they are getting along? I know there is congressional interest in writing an ESOP funding authority more explicitly in EDA's authorizing legislation. What is your view of that prospect?

Mr. HALL. We have funded four ESOP's. I would ask Harold Williams to comment. Maybe I should ask Mr. Karras. On the question of employee stock ownerships plans, I have some views. We would like to continue doing work in this area, but I have some concern that we not oversell the idea or the concept. I am concerned about employee stock ownership plans for companies that are about to fold. I fear situations where the current owners are walking away from the business with good reason, and they turn over this sinking ship to the employees. The employees in many instances may be putting up hard-earned pension funds or other securities to invest in this establishment.

I get very nervous about those situations, and I am waiting for an ESOP to come in from a highly successful, well-run, and growing firm. I would like to find one of those.

Senator BURDICK. Have you seen one?

Mr. HALL. They haven't come in. I don't wish my remarks to be negative, but I would like to highlight some public policy concerns. I know I have answered more than you asked, but I will ask Mr. Karras to clarify the record.

Mr. KARRAS. Mr. Chairman, I cannot top that. We have done four, as Mr. Hall has indicated. They were all difficult because you are always wondering why the company was ready to leave. There is a means test suggested in determining whether the company is bluffing or not. Concerning the four that we have done, we have pretty well convinced ourselves the company would have gone away unless we had participated. EDA funded an ESOP in South Bend for $5 million. There was one in Brunswick, Georgia for $5 million. There was one in Stockton, California for $5.5 million. And there was one in New Jersey that was close to $12 million.

I would have to share the view of the Assistant Secretary. We look at ESOPs very carefully. We don't see any acceleration of agency participation in these developments, but when we do get a proposal where clearly a dislocation will take place and we are convinced that the company is not bluffing, then we will give consideration to providing assistance.

Senator BURDICK. How are those four doing?

Mr. KARRAS. Fine.

Senator BURDICK. Still in business?

Mr. KARRAS. Yes.

Senator BURDICK. People are employed?

Mr. KARRAS. People are employed and the plants are doing well according to our information.

Senator BURDICK. You haven't lost any money yet?

Mr. KARRAS. Not yet, sir.

Mr. HALL. As far as NPWEDA is concerned, we feel we have the authority to fund ESOPs under the basic authorities in the bill. Moreover, we have provided in the research and demonstration title to do studies on different types of employee-ownership plans.

Senator BURDICK. In the Appalachian program, the local development districts are actively engaged each year in the planning process that starts at the district level through the area action plan, moves on to the State, and becomes part of a State investment plan, and then goes onto the Appalachian Commission. It is called a bottoms-up process that guides the annual investments of the Commission. Do you have anything like that process underway with the economic development districts? What is the OEDP used for?

Mr. HALL. I would like Mr. Williams to respond to that.

Mr. WILLIAMS. We think the EDA approach is bottoms-up because so much of our plan in the districts as well as in the other areas is developed by the local people. We have emphasized the setting of local strategies that go to local problems. And we base our investments and strategies upon these local strategies. We think the process that you described for the Appalachian Regional Commission is a sound one. We think we have operated that way, and we would continue to operate that way under the new authority.

Senator BURDICK. In what way is the growth center in your new section on districts different from the present law? Do you have any limit on the size of centers in S. 914?

Mr. HALL. I believe Mr. Hausner can respond to that.

Mr. HAUSNER. Basically, the growth center provision is the same as the existing one. The legislation simply underscores the point behind making investments in a growth center, that is, a relatively healthy community which can have beneficial effects for the surrounding distressed areas. The administration is emphasizing the growth center as aiding the community, but there is no administrative change.

Senator BURDICK. No change?

Mr. HAUSNER. Yes.

Senator BURDICK. In title II, section 203(a), a grant may be made for design, including engineering and related expenses, and an analysis of the environmental impacts of a public works project. Isn't that new? Please tell us what is behind that addition and how it will work in practice.

Mr. HALL. Yes, Senator, it is new. So far as environmental studies are concerned, we feel it is an appropriate cost related to public works projects. It is an appropriate way to finance environmental assessment costs which small communities cannot afford to undertake in many cases. Since this is a Federal requirement, we feel it is appropriate to provide for these costs out of this title.

As far as the two-part phasing of the public works projects, there are many small communities that can't lay out funds up front to do the A. & E. work and we believe it is appropriate to provide

such funds on a two-step basis. Moreover, if we do the A. & E. first, this will reduce eventual cost overruns. In general we think it is a good way to do business and not tie up a block of funds for the construction, before the project is fully engineered.

Senator BURDICK. What would be the design cost on a million dollar project?

Mr. HALL. About 9 percent, Senator.

Senator BURDICK. Getting back to this environmental impact, having seen some lawsuits over EIS situations, would you fund legal costs, too?

Mr. HALL. No, Senator. We have the responsibility under law to prepare the environmental impact statement. Even though we would make grants to local communities, we would still supervise the preparation of that statement and make the findings under the law ourselves.

Senator BURDICK. If some effervescent citizen bought a lawsuit you wouldn't provide the money to defend it?

Mr. HALL. No, sir.

Senator BURDICK. How does your program work alongside HUD's urban development action grant program? Aren't both of these economic development programs? What is the difference between them and how do you share your responsibilities?

Mr. HALL. Certainly, the UDAG program is an economic development program, and we think the two programs can work very well in tandem. We think that EDA programs are sort of a necessary infrastructure building program. The UDAG grant often deals with the sort of immediate investment opportunities that may present themselves.

We have done a lot of joint projects with our public works grants and UDAG and we think that the two programs are compatible. We have had a series of operational and administrative relationships between HUD and ourselves, and we think the two programs are necessary and can go forward in tandem.

Senator BURDICK. What happens when city X makes an application to you and HUD at the same time?

Mr. HALL. Well, all applications that come into UDAG are shared with EDA, and we provide counsel on the applications. We are working on joint application procedures. It can happen that a community will apply to both of us, but we are both aware of it and are consulting from the first day on the respective applications. We haven't had too many situations where they have come in with the exact project to us and HUD. More often, it comes in to us, and we turn them down, and they try the UDAG route, or vice versa.

Senator BURDICK. Is there any time when you cooperate?

Mr. HALL. There were several dozen projects which either were too large for either agency to handle individually or for one reason or another it was more appropriate for HUD to fund one part and for us to fund another. One example comes to mind where in Greenville, S.C., a UDAG grant went for a hotel as part of downtown revitalization and we funded a related parking garage. We engaged in a similar project in Charleston and there were many other examples that we could provide to the committee, of joint and cooperative projects. We tell them what we can do, and even

before formal applications come in, the deal is starting to form. We hope to do a lot more of that, because we think that is the way to go.

Senator BURDICK. We can be sure there is no duplication or loss of money?

Mr. HALL. I can say with some confidence, given the existence of the two programs, we have done all that can be done to make sure there is a minimal amount of duplication and overlap.

Senator BURDICK. In 1976, we gave EDA authority to subsidize interest on business loans. I don't believe you ever used that authority. But now you come along with a proposal that makes that an important tool in your development financing program. What is the background on it?

Mr. HALL. There are several reasons we never exercised our authority. One, in the past, there wasn't the thrust to expand and use the business loan program as it should be used. Second, and perhaps more importantly, interest rate subsidies are not costly. The overall size of the business development loan program has been quite small. Now we have a level of resources that we feel we can afford and use effectively on interest rate subsidies. With the overall design of the business loan program, this necessary tool can be used in tandem with the direct loans and the loan guarantees. It is very necessary.

Senator BURDICK. In your prepared statement, you say that you are now of the opinion that research can help make tough decisions. Would you name five research projects that EDA has funded that have helped you do a better job as head of the agency?

Mr. HALL. As part of the material previously mentioned as being submitted for the record today, I am submitting several pages of half dozen or so key research projects that have helped us in framing and designing NPWEDA. (See p. 112.) For example, one is an examination of the use of the labor force in targeting economic policy by Mr. David Stevens. Another provides data which has been helpful in terms of per capita income eligibility. Also, through this research, we have been able to document a variety of regional economic problems. That helped us develop the various categories of economic development needs.

Professor Garner gave us insights on a strategy for improving economic performance. Another research project examined the relationship between economic growth and development assistance in the South. We found these findings are useful. Mr. Graham and Mr. Martin of the University of South Carolina did a study on programs of the Economic Development Administration and its impact on economic growth. We have identified in this material what we think are the more pertinent research and other studies, and from them the kinds of information and policy implications.

Senator BURDICK. Are they cost-effective?

Mr. HALL. Yes, cost-effective in the research area. It is amazing now you get a couple of examples of some things that allow you to better understand what the real world is about you can save mistakes in the program. I think—let me put it this way, Senator: With the grace of God, OMB and Congress will be running a $4 billion agency in fiscal 1980.

Senator BURDICK. Which of those areas are you in doubt about?

Mr. HALL. At times, all three, Senator. And spending $4 million of the taxpayers' money in our present research program is an appropriate investment in terms of maybe understanding better what we are doing—not just going out and doing it.

Senator BURDICK. What is the focus of State planning assistance in your bill? I see a continuation of the 302 program. Is there something like the 304 grant program? What kind of role do you see for the States in economic development in the coming years?

Mr. HALL. This is an area where there has been some confusion, and we hope to communicate a little better at the State level. We see the NPWEDA program as strengthening the State role. One, as you indicated, the State 302 planning process has been continued. We have incorporated the States' 304 grant programs into title II. The legislation expands the authorization for the funds that can go to this program. It is now up to $40 million. The 1980 budget, of course, is constrained by the President's budget of January. We are only proposing $20 million for that program. Technically, the States can apply directly to the title II program as such and get public works grants like any other applicant. In addition, the States are able to receive grants from title II programs. So, certainly, the access of the State to resources of the agency are there and expanded.

In the planning area, we had a conversation earlier about bottoms-up planning. I am very concerned about strengthening the State role in economic development planning, and we would hope to have a little top-down planning at the State level to match and meet the bottoms-up planning. It is important and critical for the States to chart their overall economic strategy. We hope that for the first time the States, in concert with the local economic authorities, and economic development districts, will be able to put together a coordinated, integrated development program to guide not only our investments and other Federal investments, but to guide the investments of the States and local communities with their own funds.

Senator BURDICK. I am going to put the question to you that I put to the title V Appalachian Regional Community witnesses. This is on planning. Today we find the presence of a city planner, a State planner, and a development district, and there may exist a title V regional commission, and now we have more money for State planning. Aren't we stepping on each other's toes with all that planning?

Mr. HALL. I think you put your finger on a problem. The problem is not the assistance for planning, the problem is that economic development districts, cities, and States and regions effectively coordinate. It is an administrative problem at the Federal level. Somehow we have to make these plans work together. We are hoping to better tie together the State level planning with the district and other local plans. I share your concern about planning as such. Paper plans don't excite me.

Senator BURDICK. You have heard this from me before.

Mr. HALL. Yes, sir. I think a good planning process has a great deal of validity. We need to make these investments. But, it is critical to have up front work on the part of the community or area to try to identify the problem, what economic opportunities

there are, and the strengths and weaknesses of the area to try to cordinate what they are doing, not only where economic development dollars are concerned but where other dollars, such as transportation dollars are being used. That sort of process is critical. Economic investment is not dropping an industrial park here or a business loan there. It has to be part of an overall strategy that tries to make a maximum return on the dollar. It is this process that is so critical.

One of the failings, and I think EDA and the Federal Government have to accept a large part of the blame, is that we have been giving lip service to planning. We have been using planning as a hoop to jump through in order to get a particular project and grant. We haven't been developing a plan as a serious process. Some of the work we have done under the comprehensive economic development strategy demonstration gives us some idea of what we should be doing.

Let me give you an example of what took place in Long Beach, which was a CEDS demonstration area. We went in and said to the local community, "We have some funds which can be used in Long Beach. Before they can be used, we want to know more than the names of specific projects. We would like to know what you are going to do with UDAG money and urban transit money. How are you effectively using manpower money?"

You have heard me say that manpower is the supply side of the street, and we are working the demand side of the street. The question has been, how can we effectively use these monies to tie these programs together?

We sat down and set forth a 3-year strategy. Their basic concern was the revitalization of the commercial area of downtown Long Beach. As part of the package they came up with an $8 million UDAG program. We committed $7 million. The Department of Labor, in effect, earmarked $5 million of CETA money to be used for on-the-job training. The Department of Transportation committed $14 million over a 3-year period for some access roads and other improvements. The whole thing was tied around the downtown revitalization of Long Beach.

This all ended up in a paper plan. There was a lot of local money committed, but the important thing was the process of sitting down with the appropriate city officials, of involving State and all the Federal officials; and hammering out something that made sense for the city of Long Beach over the next few years.

To me, that process is the important thing, and not the paper plan.

Senator BURDICK. I couldn't agree more. But State X, I told you about, it is covered with economic development districts, and we have a State plan that covers the same area. Isn't there duplication?

Mr. HALL. No. We would like to see the economic development districts develop the plan for areas they cover. The collection of those economic development programs and other city plans that may exist would form the basis for the State economic development strategy. The States should be providing guidance. These are the directions we see coming from a State perspective. It is this propos-

al—the top-down as well as the bottom up process—which is how the planning process should work.

Senator BURDICK. I can see the State planner and economic district planners doing the same job, and I can see title V doing the same job again. How do we coordinate this planning?

Mr. HALL. Ideally, you will have the State planner developing the overall strategy, taking into consideration the long-range planning process. That, in effect, is not a duplication. The State will be doing the overview piece, and the EDA's and the cities will be doing the component pieces. The States would be taking the respective State strategies and trying to build a regional strategy.

Senator BURDICK. Well, we will discuss this as the years go by.

Does technical assistance pay for these university centers? What do you say about them? Do they really provide a needed service?

Mr. HALL. These are not another planning layer. These are management assistance centers. Not all of the wisdom resides in the Federal Government. And what we would like to do, and have done, is use the university network which has a lot of expertise in business. Through the university center program we provide support to the universities. We are talking very small amounts—$50,000; $75,000—for a small cadre of people who can work with business firms and the local ecomonic development agencies in a technical assistance capacity. These centers cover a wide range of areas. Basically, there is no more than one in a State. This is a good resource for the economic development practitioners.

We are also working with a couple of university centers to set up nuts-and-bolts training programs. We feel it is important to provide training to the economic development practitioners, not in the academic area, but in terms of what work is to be done. We are trying to move the university centers in that direction somewhat, and I think they are worth the investment.

Senator RANDOLPH. You now give out a great number of planning grants to States, districts, cities, and Indian tribes. Do all of these continue to get them year after year as a kind of entitlement, and do you have some way of rewards and penalties for performance or lack of it? What do you do with all these grants and the information that you receive?

Mr. HALL. Basically the grant program is continuous funding year after year. We have provisions for terminating the grant program where there is lack of performance, and we have not renewed some planning grants. I would suggest, Senator, that perhaps we ought not to be renewing a lot more than we have been. I am hoping that under our new authority we will be tougher in a couple of areas where they have not been performing.

Senator RANDOLPH. I have heard people say they get a planning grant that stays with them for years. Has there been anything on that?

Mr. HALL. Most of the planning assistance goes directly to cover the permanent staffs of the economic development district and the city economic development agency. I think you are raising a good point, and I think we need to require more in terms of performance, and have a better evaluation system. I think we ought to be tougher and tighter on the funding year after year. This will not be without some political pressure. They view this as their right, and

that we are simply check issuers. I would like to suggest that we will play another role in the years ahead.

Senator BURDICK. When you come back next year, I will be prepared to go over the same ground.

Mr. HALL. We may have some surprises for you next year.

Senator RANDOLPH. Mr. Hall, the proposed administration extension, as I understand it, rewrites the eligibility criteria for the program. How will this impact on eligible rural counties such as we have in the State of West Virginia and in other States in terms of the number of qualified counties?

Mr. HALL. Senator, first let me indicate that all we have now is some preliminary information. We are running—rerunning—and checking our computations, and we will soon have what we believe to be more definite figures and results. We will share this with the committee and staff.

In terms of how rural areas fare, let me say that we expect that a hundred to 110 additional nonmetropolitan counties which will be added on the basis of the criteria.

Senator RANDOLPH. I am not certain what you are saying. I am not trying to polarize urban and rural areas. But I am trying to determine that there has not been a decrease in the attention given to the rural areas.

Mr. HALL. Let me assure you there will be no decrease in the attention given to rural areas. In fact, our criteria enlarges their participation in the program. It maintains the city participation. There will be fewer suburban areas. We have learned that the indicators of distress are not found in the suburban areas. Therefore those areas will be the portion of the program that is decreasing.

There is greater distress than we have previously identified in the rural areas. There will be more rural areas. There will also be more city areas. There will be many counties and communities currently in the program that are no longer eligible. There will be a shift within the rural area category. We have seen a lot of areas which should not be in the present program.

Senator RANDOLPH. Tell me why.

Mr. HALL. Using current eligibility criteria, we found 40 million people in our current program that are living in areas that are no longer statistically qualified. This is under the current criteria before we proposed the new criteria. Apparently, over the years, areas that were in the program at some point failed to meet the criteria that made them eligible. There are a large number of counties and communities that no longer have the distress factors that originally made them eligible for the program.

Mr. KARRAS. As Secretary Hall indicated in looking at our new eligibility criteria, the only areas of the country where increases are shown are nonmetropolitan areas. There will be approximately a hundred new areas eligible. The number of urban areas will decrease. We have found a substantial rural eligibility in running the new criteria that we have developed.

Senator RANDOLPH. Thank you for the explanation. I believe you worked on five key factors in determining eligibility?

Mr. HALL. That is right.

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Senator RANDOLPH. Would you say you feel those five factors will provide the groups we wish to cover with the assistance that is now provided under the PWEDA program?

Mr. HALL. I think that is right, Senator. Our analysis shows that the five do a very effective job of identifying the distressed rural areas of the country. One comparison that we would make is with the National Development Bank program. The criteria in previously proposed legislation overlooked low income. These criteria do not. Of the total population eligible for current EDA programs, 26 percent of that population is rural. Under the program that we are proposing approximately 31 percent of the population would be rural. I think we have improved the eligibility of the program for rural areas over our existing eligibility system.

Senator RANDOLPH. I am encouraged by what you say. I don't want polarization between the urban and rural sections. Yet, I do realize there is reason for the so-called city separate from the suburban areas and separate from the rural areas. Is that right; the needs are in three categories?

Mr. HALL. That is correct, Senator.

Senator RANDOLPH. There are the gray areas, of course, which continue to exist.

Pardon me just a moment.

Chairman Burdick, I will be glad to work with you on your difficult schedule. I will follow through with the final witness.

Senator BURDICK. Thank you very much.

Senator RANDOLPH. I think we have explored this subject, except I will also want to come back to our favorite State, and how many counties in West Virginia are not eligible? How many counties under the new criteria would be eligible? We have 55 counties in the State, as you know, and forgive me for saying it, but who would think that in West Virginia, in acreage, there is the largest county east of the Mississippi River? So even though we are a small State, we do have some large counties, and I happen to live in that county.

Mr. HALL. I have indicated previously we do not have the detailed final sub-State data that you are requesting. And we hope we will have specific runs, within about 2 weeks, that will show how the States would fare county by county, those that are in, those that are out, and the reasons they are out. In effect, these runs will give us the impact of the eligibility formula. We would welcome the opportunity to come up and share with you and your staff the results of that analysis.

Senator RANDOLPH. Thank you, Mr. Secretary. This may be the reason why certain counties would not be eligible under the new criteria, and may not be counties where by any maneuvering become eligible?

I am trying to focus on the number of counties we now have and we will have, and I appreciate your giving us that information, as I imagine other States, of course, presumably would desire that information as well.

Mr. HALL. We certainly appreciate your philosophy in terms of approaching the criteria for eligibility. In terms of utilizing scarce resources, we have to focus on only those distressed areas. We have done our best to come up with a set of appropriate criteria. We

think that a lot has happened over the years since the initial eligibility factors were developed. Changes have come about in the economic circumstances of specific counties and areas, and I would hope that we have been able to develop sets of criteria that do address the problems of the presently distressed areas. And if a community was eligible in the past and is no longer distressed, we bite the bullet, so to speak, and eliminate eligibility for that area. If you support that area, that will be at the expense of other areas that are now distressed and in need of assistance.

Senator RANDOLPH. Thank very much, Mr. Secretary, and we thank you and your associates for testifying today.

We will be in further touch with you, as you know, as we develop the legislation, and we want to be cooperative and understanding and move as quickly as we can.

Thank you very much.

Mr. HALL. Thank you, Senator.

[An additional statement from Mr. Hall and responses to written questions follow:]

U.S. DEPARTMENT OF COMMERCE,
THE ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT,
Washington, D.C., April 25, 1979.

Hon. QUENTIN N. BURDICK,
Chairman, Subcommittee on Regional and Community Development, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The establishment of an Inland Energy Impact Assistance Program (Amendment 145 to S. 971) is now pending before your Subcommittee. I would like to take this opportunity to introduce my testimony into the record on the energy impact assistance program.

Energy boomtowns have been facing social and economic problems for many years. Increased energy production has caused severe hardships on these communities. We feel this is an area of shared responsibility between the States and the Federal Government.

These communities must be helped immediately, and this Administration-supported legislation will provide this greatly-needed assistance.

I hope you and your distinguished colleagues in the United States Senate will give this much-needed program your support.

Sincerely,

ROBERT T. HALL,
Assistant Secretary for Economic Development.

STATEMENT OF ROBERT T. HALL, ASSISTANT SECRETARY OF COMMERCE FOR ECONOMIC DEVELOPMENT, ON ENERGY IMPACT ASSISTANCE

Mr. Chairman and Members of the Committee, for the past two years, this committee and the administration have been working together to develop a technical and financial assistance program to meet the immediate and serious problems faced by energy boomtowns. In keeping with the President's commitment that no American community or tribe should be asked to assume more than its fair share of the burdens of meeting our national energy production goals, $150 million was put in the 1980 budget for an energy impact assistance program. It is therefore a long-awaited pleasure for me to testify today in support of the energy impact assistance bill, amendment 145 to S. 971, introduced by Senators Hart and Randolph on April 10, 1979.

Energy impact assistance, as everyone present today knows all too well, remains a complex issue surrounded by substantial controversy. The controversy may be due, in part, to the uncertainty attached to the need for the proposed program. In my testimony today, I would like to put the uncertainties of who will be affected by the program and how; and most importantly, who is going to be responsible for addressing the adverse social and economic impacts caused by the development, into a perspective that will describe the need for an impact assistance Program.

Last year, many distinguished witnesses testified before this committee and gave vivid examples of the adverse conditions that face small towns and communities in

Appalachian and western states as a result of rapid energy resource development. As the nation is forced to continue to turn inward in our search for alternative fuel or new energy sources, small towns or communities in any part of this country that are surrounded or near needed energy resources may face the boomtown problems of Craig, Colorado, Gillette and Rock Springs, Wyoming. The continued inability of energy boomtowns to deal with sudden growth may have serious consequences for the pace and price tag of future energy development.

Boomtowns need water, new or expanded sewer facilities, doctors, nurses and social workers. Many of these small rural towns have part-time mayors and will need to build a "city" government for the future. They also need transportation, affordable housing, social programs, and money to meet the front-end financing for public facilities and services. Despite the surrounding wealth, these are relatively poor towns. There is a tax lag of several years between the time the revenues come into the town's coffers and the immediate growth needs of the town. Gillette, Wyoming is a typical example in that it is growing faster than it can afford economically and is building water and sewer plants for a future city of 35,000, but is paying for these plants with the revenues from a city of 12,500. Another type of problem occurs when the boomtown population of one state spills into neighboring towns of another state. For instance, due to the high cost of living, tight housing and other factors, increasing numbers of people working in Gillette, Wyoming are living in Spearfish, South Dakota and commuting 90 miles, one way, to work. Consequently, South Dakota is picking up the bills from increased population while the coal leasing revenues from the Wyoming mines remain within the state of Wyoming. In turn, Wyoming is paying the bills from increased population in Buffalo and Sheridan, due to coal mines located in southern Montana just north of the Wyoming state line. These examples of mismatches in timing and jurisdiction added to the inherent problems of rapid influx of population, and the subsequent demand for adequate public facilities and services, have created a need for communities and Indian tribes to manage their growth in an orderly manner.

The President's Energy Task Force reported that existing categorical Federal programs are not meeting the needs of energy impacted communities. Designed and funded to meet other specific priorities, they have eligibility requirements (e.g., high unemployment, low income, historical population base) which ofter restrict participation by rapid growth communities. Nor do they have the flexibility to meet the wide range of problems faced by a community which requires simultaneously the full range of public facilities, services and housing.

The Federal Government, working with the states, tribes and industry, must share in the responsibility of insuring that these communities' energy impact needs are met.

The proposed inland energy impact assistance program was not designed nor intended to meet all of the financial needs of the states, Indian tribes and communities impacted by rapid energy resource development. The purpose of the program is to provide a modest level of flexible front-end financial assistance to the states and tribes for planning and capital financing for assistance to impacted areas.

Two-thirds of the energy impact assistance would be in the form of guaranteed loans, which would be available to finance traditional revenue producing facilities needed for orderly development. The remaining one-third of the assistance would be used: To finance state, local and tribal planning, growth management, and other impact prevention and mitigation capacities; to complete necessary financing of projects with grants when the full costs cannot be reasonably amortized or to provide needed services.

Inland energy impact assistance establishes a local planning process and provides funds for support of that process and for the implementation of statewide mitigation strategies. The legislation provides for governors and leaders of Indian tribes to designate energy impact areas within their jurisdiction.

Once impact areas are designated, local planning units would then prepare energy impact plans detailing: the impact of the energy development; the needs of the area resulting from the energy development; and developing specific proposals for meeting the needs.

The allocation of funds will be made on the basis of a formula developed by EDA which includes increases in impact area employment and population, and State and local efforts to secure tax and other revenues arising from energy resource development. States with approved mitigation strategies are eligible for block grants and for loan guarantees and interest subsidies for the purpose of implementing the strategies.

The total project costs will be funded through the block grant and a matching State share that increases from zero in the first year to 50% in the fifth and final

year of the program. These funds are to be redistributed by the States to the maximum extent practicable in the form of loans, loan guarantees, grants and other assistance to the impacted localities. Funds from interest income and repayments of State loans may be reused by the State for other impact adjustment purposes, thus establishing a revolving fund (which will be diminished to the extent that the State uses the fund for grants for non-revenue providing facilities).

EDA will also guarantee and/or provide interest subsidies to increase a State's borrowing capacity for mitigation purposes. These funds borrowed by a State will be added to the revolving fund. A State's revolving fund must be used to meet energy impact needs until all such needs have been substantially met.

Indian tribes will be provided with grants to implement plans and strategies on a project-by-project basis. Tribes may, like States, redistribute grant funds in subgrants or subloans; in this case, repayments of loans to the tribe would be used to establish a tribal revolving fund.

EDA will also assist impacted communities on a project-by-project basis where there is a very limited amount of energy development, and where the State is not eligible for a separate allocation and, therefore, not participating in the revolving fund program.

The legislation also provides for a significant role for the Appalachian Regional Commission and the regional commissions established under Title V of PWEDA. These commissions have already demonstrated a sound track record in dealing with the social and economic impacts of rapid energy development in their areas, and have the ability to design regional strategies for coping with these energy issues. Where a majority of governors of affected States within the boundaries of the respective commission request, that commission would exercise the authorities and the responsibilities of the Secretary in approving energy impact mitigation strategies and in making planning and impact assistance grants to all States for which there is an allocation. This regional commission role responds to the President's decision to enable the commissions to address rapid growth policy issues in addition to their previous functions of dealing in principally with economic decline.

This program represents a new approach for Federal assistance. The time has come in which we clearly recognize that the Federal Government cannot independently and fully solve the problems that are within the national interest to address. We are going to have to depend on the States, on tribes, on communities, and on private industry to see to it that the problems of boomtown communities are addressed. We believe that the front-end financial assistance provided for in the legislation is an appropriate role for the Federal Government since the Nation as whole will benefit from the development.

Part of the promise of energy development has been economic stimulation and the opportunity it can bring for better community life. But runaway growth, one-industry growth, or short-term booms in small, basically rural, areas can frustrate these opportunities. The Economic Development Administration is in the business of growth; orderly and balanced subnational economic growth.

EDA's track record in responding to the needs of local government is, I believe, an excellent one. The Economic Development Administration has been charged with implementing two major program initiatives: the $4 billion second round of the local public works program and the $175 million emergency drought relief program. Both of these programs were established and implemented in record time with small staffs and minimum administrative costs. Our experience with the title IX adjustment assistance program in responding to the problems of sudden and severe local economic dislocation has given us a strong headstart in providing for timely and effective energy impact assistance.

Meeting our national goal of increased domestic energy production is important for us all. Through an effective program of preventing and mitigating impacts, combined with necessary planning and growth management we cannot only assure reduction of burdens on the affected communities, but also go a long way toward maximizing the nationwide benefit that can be derived from our existing stock of energy resources.

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

Honorable Quentin N. Burdick
United States Senate
Washington, D. C. 20510

Dear Senator Burdick:

Following the April 10 hearing before the Senate Committee on Environment and Public Works, Subcommittee on Regional and Community Development, additional questions were submitted to the Economic Development Administration (EDA). Enclosed are appropriate responses to those questions, to be inserted into the hearing record following my testimony. As you know, the edited transcript was submitted earlier to the Subcommittee under a separate cover.

Your continued interest in EDA and its programs is appreciated.

Sincerely,

ROBERT T. HALL
Assistant Secretary
for Economic Development

Senator Randolph:

How do you believe your proposed extension legislation will improve the efficiency of the Act and provide better program tools?

ANSWER:

- The proposed legislation consolidates various existing authorities under a simplified legislative structure that is more understandable and easier to administer. This restructuring makes more clear the purposes and objectives of the EDA program and the programs that are available to deal with economic distress.

- The new eligibility system replaces an outdated, overlapping and confusing set of distress criteria that no longer reflect the types and levels of distress experienced in the country. This new system reduces eligibility for areas where economic problems no longer exist; increases eligibility for areas that have begun to show symptoms of economic distress; and creates a reasonable balance among the regions and between urban and rural areas.

- The proposed legislation introduces improvements in various program authorities such as the ability to provide separate grants for design and construction in the public works program; the new eligibility for rural pockets of distress; and explicit authority to undertake both software and hardware demonstrations to test new economic development approaches.

- The NPWEDA's significantly expanded development finance program greatly enhances EDA's current ability to encourage the expansion, location or retention of private firms in economically troubled rural and urban areas. This expanded program--in terms of resources as well as authorities--is vital to the achievement of EDA's fundamental mission.

Senator Randolph:

The proposed legislation which the Administration has submitted combines in Title II public works grants and economic adjustment assistance. How do you view the division of these two programs within the program administration?

ANSWER:

The proposed legislation makes economic adjustment areas eligible for all assistance under the Act, not just Title II assistance. We think that the basic tools used to attack economic dislocation are the same as those used to deal with economic distress, that is, planning, technical assistance, public facilities and development financing. Accordingly it makes sense to deal with economic adjustment assistance as simply a problem of eligibility, not of separate tools.

Senator Randolph:

If the purpose of combining these two is program efficiency, will they be operated independently of each other or as a combined program?

ANSWER:

Economic adjustment will probably still have to be operated as a separate unit within EDA, because we will need to have personnel who are capable of moving quickly and decisively to help areas suffering from sudden and severe dislocations. This unit will have available to it all of EDA s tools to help focus the Agency's efforts on the problems of the areas suffering from such dislocations.

Senator Randolph:

Could you describe for us how the economic lag factor will operate and what type of localities or areas will be eligible under this criteria?

ANSWER:

One of the factors used to determine NPWEDA eligibility is employment decline. Strictly speaking, it is not a lag factor. If an area has lost jobs between 1974 and 1978 it qualifies. This is not simply a slow-growth or lag test, but absolute decline. Because it is a severe test it tends to qualify relatively few places independently. The places that meet this test are either urban areas with badly deteriorating economies or rural areas that are experiencing outmigration. States in the North Central region are most likely to contain areas that qualify on this factor.

Senator Randolph:

How will existing designated counties or areas be handled funding-wise with the proposed redesignation of your legislation?

ANSWER:

- In order to avoid a disruption in ongoing programs, all existing designated areas will remain eligible for all programs--except the expanded business finance authorities - for two years after enactment. This would be true even if an existing designated area were not eligible under the new eligibility criteria.

- Currently designated areas that are eligible under the new legislation would, of course, continue to be eligible for all EDA programs.

- Even after the two-year transition period for PWEDA designated but NPWEDA ineligible areas, these areas would still be eligible for planning or technical assistance.

Senator Randolph:

What are the changes which have been written into the planning and technical assistance category?

ANSWER:

There are no fundamental differences between PWEDA and NPWEDA in the planning and technical assistance authorities. States, districts, local governments, and Indian tribes are still eligible for both types of assistance. Other than the consolidation of planning and technical assistance for economic development and adjustment in one title, there are only minor changes in the new legislation including the following:

- language emphasizing the importance of broad participation in the local development process and realistic strategies for use in guiding economic development strategies;
- authority to provide planning assistance to non-District sub-state planning agencies; and
- authority to provide technical assistance to private firms in conjunction with EDA's expanded business finance program.

Question Senator Domenici

You have stated that it is your intention to minimize the disruption in your ongoing program as you make the transition to the new program requirements.

It seems to me that the process of getting this bill up to us has caused some disruption in your normal activities.

When will you release FY 1979 funds for economic development districts, and when will the newly funded districts be identified?

Have you decided whether to use the additional funds appropriated in accordance with Congressional intent, i.e., for new districts, or do you still plan to use them for special incentive grants to existing districts?

ANSWER

- On April 30, 1979 EDA release of FY 1979 funds to the EDA Regional Offices for district planning and administrative grants for 29 additional districts. Several additional district fundings are under consideration. Districts selected to be newly funded will be invited to submit formal applications for EDA grants.
- We are in the final steps of developing an Administration position on the funding of incentive grants, training/evaluation grants and additional new districts. We expect these plans to be completed in the very near future, whereupon appropriate Congressional Committees will be informed of our plans.

Question

In the National Public Works and Economic Development Act the Administration has trimmed its request for a program of development financing compared with the $3.255 proposed in the March 1 reorganization, to $788 million. Even so, when you add $150 million for an inland energy program, EDA's budget increases to $1.49 billion, almost three times the current program level of $522 million for FY 80. Presumably the management requirements will be much more intensive and will employ more skills than were needed to administer a counter-cyclical public works program, where part time and temporary staff were used extensively.

Question

1. How do you propose to staff and organize your agency to administer this expanded program?

ANSWER:

While we do not yet have the full plans for staffing and organization, we have begun work on a number of areas. These include an examination of our current organization and delivery structure, an examination of delivery systems currently being used by other Federal agencies such as SBA and Farmers Home Administration, and an examination of private banking delivery systems. We have formed a task force using outside experts to design a simplified processing system. We are also studying the feasibility of establishing a network of assistance organizations which can help private and public applicants design feasible projects.

We intend to make maximum use of existing organizations, within and without the Federal Government. This would include the existing EDA organization, other Commerce Department offices (particularly in the Industry and Trade Administration), Farmers Home Administration and Small Business Administration. It would include state departments of economic development, Economic Development Districts, and city planning and development agencies, as well as EDA-established University Centers and other non-Governmental organizations which work with the private sector.

We expect to add additional staff with expertise in development financing to help with the additional workload.

During the past year, EDA has designed and is now implementing a sophisticated Operational Planning and Control System which uses automatic data processing. This system is readily adapted to an expanded workload, and the experience gained in placing it into operation can readily be translated to the new program.

Question

2. Will the agency be restructured in any significant way? How?

ANSWER:

We believe that some restructuring of the Agency will be necessary. It is too early at this stage to be specific on restructuring as we have only begun our organizational studies.

Question

3. How many additional staff will you require in FY 80 and over the subsequent 5 years you have proposed for reauthorization?

ANSWER:

We have not yet completed our analysis of total additional staff needs.

Questions

Would you please relate the tools proposed for dealing with economic distress with the indicators of distress and how the latter will be improved by your activity in the distressed area.

For example, how will attracting business to pockets of urban poverty necessarily address the high levels of structural unemployment, or reach those people who are "left out" of the general propertiy in a community?

How will you judge whether you have been successful in your selected strategy? What objective measurements of local economic improvement will you use to determine the effectiveness of your efforts?

ANSWER:

Each of the proposed tools can be directed at alleviating unemployment, employment loss, and poverty. Under Title III direct loans, loan guarantees and interest subsidies can be used to stimulate private investment that would otherwise not occur, thus creating new jobs, increased income and a strengthened tax base for the distressed locality. These business development tools can also be used as an incentive to retain firms that otherwise might leave, thus helping to reduce employment losses.

The relationship between public works grants (Title II) and the indicators of distress is also strong. Through public works grants communities can build the basic infrastructure and environment needed for long-term firm attraction and retention. Under the new legislation, grants can also be used to defray up to 15% of the cost to a private firm of remaining, expanding or locating in a distressed area.

Technical assistance and planning grants under Title I can help a place to develop and carry out specific projects that will stimulate private investment and job creation in an area, or to formulate a comprehensive strategy for long-term economic development. This assistance is critical in building a capable local development process that can take advantage of opportunities for private investment and address unemployment and low income problems through various activities and projects.

For pockets of poverty in otherwise prosperous localities, the program tools will be directed principally at the structurally unemployed and disadvantaged residents of the pockets through joint efforts with manpower, training, and community development programs. Moreover, a certain proportion of funding for each program tool will be set aside for use in advancing minority economic development goals.

To judge the effectiveness of assistance to specific areas, EDA looks at measures such as the number of jobs created, the cost per job, the amount of private investment leveraged and the anticipated tax base increases. Long-term measures of effectiveness must also include important intangibles such as impact on business climate, personal income, the effectiveness of local development processes, and quality of life.

When will you be able to provide a "list" of areas which will be qualified for designation under your new eligibility criteria? Could you draw a verbal map of these qualifying areas for us? How is this different from the current eligibility picture?

ANSWER:

The attached charts summarize the results of the proposed NPWEDA eligibility system and compare these results to the current PWEDA eligibility picture. The Committee has been given a complete list of areas by State with their status under both the current and proposed eligiblity criteria.

TOTAL PWEDA AND NPWEDA ELIGIBLE POPULATION BY STATE

State	State Pop	% of U.S. Pop	PWEDA (CURRENT) Total Elig Pop	PWEDA (CURRENT) % of U.S. Elig Pop	NPWEDA (PROPOSED) Total Elig Pop	NPWEDA (PROPOSED) % of U.S. Elig Pop
Alabama	3.7	1.7	3.3	1.9	3.0	2.4
Alaska	0.4	0.2	0.4	0.2	0.0	0.0
Arizona	2.2	1.0	2.2	1.3	2.2	1.7
Arkansas	2.1	1.0	2.1	1.2	1.6	1.3
California	21.5	10.0	20.1	11.5	12.6	9.9
Colorado	2.6	1.2	1.2	0.7	0.6	0.4
Connecticut	3.1	1.5	2.6	1.5	1.9	1.5
Delaware	0.6	0.3	0.6	0.3	0.4	0.3
Dist. of Col.	0.7	0.3	0.7	0.4	0.7	0.6
Florida	8.3	3.9	8.1	4.7	6.3	5.0
Georgia	5.0	2.3	4.9	2.8	4.3	3.4
Hawaii	0.9	0.4	0.9	0.5	0.8	0.7
Idaho	0.8	0.4	0.5	0.3	0.2	0.2
Illinois	11.2	5.2	8.7	5.0	4.6	3.6
Indiana	5.2	2.4	3.6	2.1	1.5	1.2
Iowa	2.9	1.3	1.1	0.6	0.2	0.2
Kansas	2.3	1.1	0.8	0.4	0.2	0.2
Kentucky	3.4	1.6	2.9	1.7	2.2	1.7
Louisiana	3.9	1.8	3.4	2.0	2.8	2.2
Maine	1.1	0.5	1.0	0.6	1.0	0.8
Maryland	4.1	1.9	2.7	1.5	1.3	1.0
Massachusetts	5.8	2.7	5.7	3.3	5.2	4.1
Michigan	9.1	4.3	8.4	4.8	7.5	5.9
Minnesota	4.0	1.8	3.0	1.7	1.8	1.5
Mississippi	2.4	1.1	1.9	1.1	2.3	1.8
Missouri	4.8	2.2	2.7	1.6	1.8	1.5
Montana	0.8	0.4	0.6	0.4	0.3	0.2
Nebraska	1.6	0.7	0.3	0.2	0.3	0.2
Nevada	0.6	0.3	0.4	0.2	0.1	0.1
New Hampshire	0.8	0.4	0.5	0.3	0.3	0.2
New Jersey	7.4	3.4	7.4	4.2	4.9	3.9
New Mexico	1.2	0.5	1.1	0.6	0.5	0.4
New York	18.1	8.4	17.5	10.1	15.5	12.3
North Carolina	5.5	2.5	4.8	2.8	3.1	2.4
North Dakota	0.6	0.3	0.2	0.1	0.1	0.1
Ohio	10.7	5.0	9.4	5.4	6.7	5.3
Oklahoma	2.8	1.3	2.3	1.3	1.0	0.8
Oregon	2.3	1.1	2.3	1.3	1.4	1.1
Pennsylvania	11.8	5.5	9.9	5.7	7.2	5.7
Rhode Island	0.9	0.4	0.9	0.5	0.9	0.7
South Carolina	2.8	1.3	2.8	1.6	1.9	1.5
South Dakota	0.7	0.3	0.3	0.2	0.3	0.2
Tennessee	4.2	2.0	3.7	2.2	2.3	1.8
Texas	12.6	5.9	5.1	2.9	5.0	4.0
Utah	1.2	0.6	1.2	0.7	0.4	0.3
Vermont	0.5	0.2	0.3	0.2	0.3	0.2
Virginia	5.1	2.4	2.3	1.3	2.1	1.7
Washington	3.6	1.7	3.5	2.0	2.6	2.1
West Virginia	1.8	0.9	1.4	0.8	1.3	1.0
Wisconsin	4.6	2.1	2.4	1.4	1.0	0.8
Wyoming	0.4	0.2	0.1	0.0	0.0	0.0
TOTAL	214.6	100.0	174.1	100.0	126.3	100.0

(1976 Population in millions)

UNITED STATES

PER-CAPITA INCOME(1975)..... $4819
EMPLOYMENT GROWTH(1974-1978)..... 9.7%
5 YEAR AVERAGE UNEMPLOYMENT RATE(1974-1978).... 7.0%
24 MONTH AVERAGE UNEMPLOYMENT RATE(1977-1978).. 6.5%
PERCENT OF FAMILIES BELOW POVERTY LEVEL(1970). 10.8%

PERCENT OF U.S. POPULATION IN PWEDA ELIGIBLE AREAS..... 81.1%
PERCENT OF U.S. POPULATION IN PWEDA DESIGNATED AREAS..... 77.6%
PERCENT OF U.S. POPULATION IN NPWEDA ELIGIBLE AREAS..... 58.9%

AREA	UNITED STATES TOTALS			PWEDA ELIGIBLE[@]				NPWEDA ELIGIBLE (STATISTICALLY QUALIFIED)		
	POPULATION	AREA COUNT	PERCENT OF STATE POPULATION	POPULATION OF ELIGIBLE AREAS	NUMBER OF DESIGNATED AREAS	NUMBER OF QUALIFIED NOT DESIG-NATED AREAS	PERCENT OF ELIGIBLE AREA POPULATION	POPULATION OF AREAS	NUMBER OF AREAS	PERCENT OF ELIGIBLE POPULATION
CORE COUNTY	119,149.9	312	55.5	102,559.6	229(109)&	12	58.9	72,670.4	148	57.5
CENTRAL CITY	66,168.6	362	30.8	56,836.6	280(118)	15	32.6	44,356.8	219	35.1
SUBURBAN COUNTY	37,862.3	362	17.6	27,054.5	222(132)	12	15.5	14,166.9	151	11.2
NON-METRO COUNTY	57,572.6	2,500	26.8	44,498.5	1660(582)	95	25.6	39,505.9	1,768	31.3
METRO	157,012.2	674	73.2	129,614.1	451(241)	24	74.4	86,837.3	299	68.7
NON-METRO	57,572.6	2,500	26.8	44,498.5	1660(582)	95	25.6	39,505.9	1,768	31.3
TOTAL	214,584.8	3,174	100.0	174,112.7	2111(823)	119	100.0	126,343.2	2,067	100.0

POPULATION(1976) GIVEN IN THOUSANDS
& PWEDA DESIGNATED THAT ARE NOT PWEDA STATISTICALLY QUALIFIED
@ PWEDA ELIGIBLE AREAS ARE THOSE AREAS THAT ARE DESIGNATED OR ARE QUALIFIED NOT DESIGNATED

SUMMARY OF ELIGIBILITY CHANGE FOR UNITED STATES COUNTY AREAS

ELIGIBILITY STATUS	COUNT OF AREAS
NPWEDA ELIGIBLE AREAS	2067
PWEDA ELIGIBLE AREAS[@]	2230
PWEDA ELIGIBLE AREAS THAT ARE NOT NPWEDA ELIGIBLE	507
(30% OF WHICH ARE NOT PWEDA STATISTICALLY QUALIFIED)	
NPWEDA ELIGIBLE AREAS THAT ARE NOT PWEDA ELIGIBLE	344
NET CHANGE IN ELIGIBLE AREAS FROM PWEDA TO NPWEDA	-163

Question

Your bill proposes a six-year economic development program -- from FY 1980 through FY 1985. What levels of funding do you expect this program to require in the years following FY 1980? What is the optimum level of the program, in your opinion?

Answer

As you know, the Administration has proposed a two-year phase-in for the expanded Development Financing Program incorporated in NPWEDA. Consequently, we expect to be asking for somewhat increased appropriation levels in the years following 1980. The Administration has not, of course, established definite funding levels for this program for those years. Such levels will be determined each year prior to the submission of the President's Budget on the basis of the numerous economic and other factors considered during deliberations on the budget. However, in response to Congressional requests for outyear funding levels, EDA has prepared estimates to provide general guidance in considering the budgetary implications of the proposed program in Fiscal Years 1981 through 1985. These are, in round numbers,

	Appropriation	Outlays
• For FY 1981	$1.7 billion	$890 million
• For FY 1982	$2.1 billion	$1.2 billion
• For FY 1983	$2.2 billion	$1.5 billion
• For FY 1984	$2.2 billion	$1.7 billion
• For FY 1985	$2.2 billion	$1.9 billion

These figures include the estimates of the administrative funds needed to carry out the EDA programs.

Based on our present expectations of how the programs will operate, we believe that the $2.2 billion appropriation represents an optimal program level. In that regard, I should note that the $2.2 billion appropriation will enable us to provide not only $2 billion in grants, loans, and interest subsidies, but also to guarantee loans with a face value of $2.5 billion. Thus, the total program activity associated with our funding would be in the neighborhood of $4.5 billion.

Question

1. Part of the President's $788 million development financing initiative which was not shared with the Banking Committee is the $275 million in grants under Title II to be used in association with the business loans, guarantees and interest subsidies authorized in Title III.

a) Could you describe in some detail how this grant money will be used, and in particular how it will relate to the development financing program?

ANSWER:

EDA will not make grants directly to private firms. Instead, grants will be made to state and local governments, Indian tribes, and private or public non-profit organizations representative of the designated area for use by them to help individual firms. These entities may use grants for the purchase or improvement of real property--the acquisition of land or the construction of utilities to serve the site, for example--in order to influence a firm's decision to remain, expand, or locate in an EDA eligible place.

The decision to approve a grant to defray up to 15 percent of the costs of a private firm will be based upon an analysis of the degree of distress of the community, the financial needs of the business, and the benefits of the project to the community in the form of jobs for the unemployed and underemployed and the increase in the tax base.

Examples of eligible grant activities that directly benefit a private business are as follows:

- acquisition and development of land
- construction, alteration, rehabilitation, expansion and improvement of a commercial or industrial plant (including related equipment)
- infrastructure improvements

The provision of the grant to a business may increase its rate of return and, thus, be a financial incentive to a firm to locate or expand in a particular place.

Since the President's reorganization announcement of March 1 and the transmittal of the National Public Works and Economic Development Act of April 4, the budget associated with the development financing program has dwindled from $3.255 billion to $788 million. Yet the grant portion -- $275 million -- has remained constant.

(a) Could you explain why the grant funds associated with the development financing program were not reduced accordingly?

(b) How strong is the tie between these two portions of the development financing program?

ANSWER:

(a) The $275 million for grant assistance was not reduced for a number of reasons:

- A gradual phase-in of the development finance portion of NPWEDA was thought to be appropriate given the moderate size of EDA's current business finance program; EDA's lack of experience with some of the business finance tools such as interest rate subsidies; and the great amount of leveraging that can still be achieved through the loan guarantee program with the additional monies requested.

- Retaining the $275 million for grants recognized the critical importance of funding to create public infrastructure tied to economic development objectives; EDA's long experience with every aspect of public works grant activity and the absence of any need for a phase-in period to ensure effective administration of an expanded program; and the need for a significantly enhanced grant authority to act as a counterpart to the $2.3 billion in total EDA business finance authority that will come about through the requested increase in resources.

(b)
- One eligible activity under the new $592.2 million public sector grants program ($320.2 million in existing funds, $275 million in new funds) will be to defray up to 15% of the costs to a private firm to remain, expand or locate in an EDA eligible area. These grants which will be channelled to the local public sector to use as a subsidy to the private firm for activities such as land acquisition and preparation, or facilities construction/rehab, will often be used in connection with EDA business finance assistance to the firm.

- There are a number of other eligible activities that will draw on public sector grant funds--including the $275 million in increased resources for the program. These activities include grants for state and local economic development projects and grants to capitalize state and local revolving loan funds.

Question

3. One of the possible consequences of sharing jurisdiction over the National Public Works and Economic Development Act with the Banking Committee is that the development financing program may be reported at a significantly lower level than the $595 million proposed for Title III. It is, after all, a direct descendent of the National Development Bank which that Committee declined to consider at all last year.

(a) Would not such an outcome reduce the need for some proportion of the $275 million in grants designed as part of the development financing packages?

(b) If not used in association with the new program, how would you justify doubling the budget for public works and adjustment assistance, compared with the levels proposed in the President's January Budget?

ANSWER:

(a) We do not expect the development financing program in Title III to be reduced. Obviously, if any portion of the program is reduced, it would be advisable to look at the entire program to determine if reductions or increases would be appropriate elsewhere.

(b) It is not necessarily true that a reduction in development financing would reduce the need for the $275 million in additional grants as a part of the development financing package. Such funds might well be appropriately used in connection with a reduced development financing program, or they might be used in connection with other public works and adjustment assistance objectives.

Senator Chafee

Question

Under the revised eligibility criteria proposed in this bill, you estimate that 60-65% of the U.S. population lives in areas determined to be suffering economic distress. While this appears to be more restrictive than the current law, which covers 75% of the population, it is clear that the criteria defining distress will not, by themselves, "target" economic development assistance. Furthermore, eligibility does not entitle an area to EDA assistance.

Within the broad outlines of eligibility, EDA enjoys substantial discretion in the deployment of economic development assistance.

ANSWER:

- The new eligibility system proposed in the EDA legislation would make about 60% of the U.S. population eligible for EDA assistance. The current EDA law has an eligible population of over 80 percent. The new legislation would result in a reduction of about 25% or over 50 million people.

- It should be remembered that qualification based on statistical measures of distress is only the first step toward gaining EDA funding assistance. Qualified areas must then prepare acceptable Overall Economic Development Programs (OEDPs) laying out realistic strategies for economic development. Subsequently, an area must apply to EDA for project assistance to implement the OEDP strategy.

- It is true, therefore, that EDA has substantial discretion in the deployment of economic development assistance within the universe of areas that are statistically qualified. The nature of the economic development process and the need for EDA to retain flexibility to meet the very different needs of places experiencing different types of economic distress mandates this discretionary approach.

Question

Please describe the constraints this bill places on how you, as the Administration of EDA, may use the available funds.

Answer

There are a variety of important factors that constrain EDA judgements about the use of economic development funds.

- Specific legislative provisions constitute many of these constraints. These provisions include mandates about the types of activities eligible for funding (e.g., land acquisition and site preparation, rehabilitation, etc.); the level of EDA assistance possible through grant rate maximums and limits on the amount of loan guaranteed by EDA; the need to meet civil rights, environmental, and other general Federal requirements; local government sign-off on business finance projects; and other legally mandated provisions.

- EDA has formally committed itself to a division of funding between urban and rural areas that is currently about 50/50 and will move over the next several years, with the significant expansion of business finance resources, to a 60/40 urban/rural division of funding. This formal commitment to a particular urban/rural allocation places a significant and valid constraint on EDA administration of the program.

- In addition, there are various investment criteria which affect the allocation and use of available EDA funds. These investment criteria include considerations such as the job creation potential of a project, its ability to leverage private sector investment, the level of distress of the area, the capacity of the area to successfully plan and undertake economic development projects, the technical and economic feasibility of a project, and the degree to which it will contribute to the economic improvement of a distressed area. These types of criteria flow directly from EDA's fundamental legislative mandate to assist economically distressed areas to attract or retain private investment and create permanent private sector jobs in order to address the problems of unemployment, low income, and other types of distress.

- Another constraint on EDA's discretion in making funding decisions is the need to achieve a reasonable balance among the regions in allocating resources. Each year, EDA issues planning targets to its regional offices as a basic tool for investment decisionmaking. These planning targets, which are kept flexible in order to enable the Agency to respond to opportunities and problems which emerge throughout the year, are normally based on the previous history of program obligations among the various regions. The manner in which EDA determines these annual regional planning targets will have to be reviewed in light of the changing eligibility patterns, increased resources, and new program tools that will occur through the new legislation. However, previous history of program obligations will still

remain an important factor in developing planning targets, and all regional offices will have access to significant additional resources under the new program.

- The final major constraint on EDA funding decisions relates to the nature of the local economic development process that is fostered by Agency programs and requirements. This process includes a planning element in the form of OEDPs to which EDA is committed to adhere in making funding decisions. Moreover, local processes which determine the nature and level of funding requests to EDA also determine to a large degree how EDA makes funding decisions. These local processes feed proposals directly into EDA's project pipeline at a very preliminary stage in project development. The movement of proejcts through this pipeline reflects very directly the legitimate time it takes at the local level to plan and undertake major developmental activities.

Question

How do you generate a strategy for making your "investment decisions"?

ANSWER

There are a number of components that make up EDA's general strategy for investment decisionmaking. Part of this strategy is determined at the Federal and regional levels, but an important part of the strategy is determined by the plans and priorities of eligible areas and communities. EDA has traditionally put great emphasis on fostering local and area capacity to understand local economic problems and develop plans and proposals to address these problems. While certain national objectives must be set by EDA, it is important for the Agency to maintain a posture of flexibility and responsiveness to meet locally determined needs and priorities. Thus, there can be no rigid EDA imposed strategy that determines in advance the exact investment decisions that will be made in any certain year. It is the capacity and products of the local development process that, to a large degree, form EDA's investment strategy.

The part of EDA's investment strategy which is determined by EDA has the following elements:

- The urban/rural division of funding and regional planning targets.
- Annual instructions from the Assistant Secretary to the Regional Offices which focus on objectives such as improved local and area planning capacity, goals for job creation and private sector leveraging, and expanded efforts in the area of minority economic development.
- The development of regional office investment strategies which identify particular problems needing to be addressed in the various regions and set out various plans by which the regional offices can respond to requests for assistance from areas and communities.

EDA headquarters staff meet regularly throughout each year with regional office staff to discuss problems and make adjustments in allocations, internal procedures and investment criteria.

Question

To what extent does your strategy depend on who gets to the door first, i.e., grantsmanship skills?

ANSWER

Grantsmanship skills always play a role in Federal discretionary programs, but the nature of the EDA investment process does not put a premium on this skill. All areas designated by EDA have economic development planning processes which produce annual priorities for funding that constitute much of the universe of requests for aid. Small communities with insufficient staff resources to deal directly with EDA often work through their Economic Development Districts or counties. The decentralized decision-making procedures of EDA allow productive and direct relationships between potential grantees and state/regional EDA staff. EDA's traditional policy of working with areas and communities at very early stages in project development minimizes the need for grantsmanship and assures the correct developmental period for project preparation. Many projects take a year or more to reach the point of an EDA funding commitment, but since EDA works closely with communities during the developmental period, plans can be made by EDA to provide funding at the correct point in time.

All of these factors, together with EDA's policy of reserving some funds to take advantage of late targets of opportunity, assure that EDA's investment decisions are not dependent on "who gets to the door first."

Question

How will you decide among competing projects? Does the procedure proposed in your bill differ from current practice and if so, how?

Answer

The constraints and procedures mentioned in earlier questions determine how EDA chooses among competing projects. These constraints include the need for an urban/rural and regional balance; and investment criteria such as job creation and private investment leveraging potential, an area's distress, the technical and economic feasibility of a project; and the degree to which a project will contribute to the economic improvement of the distressed area. These types of judgments combine with the amount of funds available in the various programs and for various types of areas (e.g., districts, cities, etc.) to produce final decisions about project funding.

Under the new legislation, EDA will use these same considerations to make funding decisions.

Question

How will the funds be deployed regionally? How do you determine what Federal portions of funding will be devoted to projects in rural areas versus urban areas of varying sizes?

ANSWER

EDA expects to consider a number of factors in developing regional planning targets under the new legislation. These factors would probably include at least the following:

- the incidence of unemployment or low income or other forms of distress in a region
- the number of eligible areas serviced by the regional office
- the previous history of program obligations to the regional office

With increased resources, all regions will be assured of additional funding over and above that which they are currently receiving. Special factors such as the ability of particular regions to absorb significantly expanded business finance assistance, may also affect regional planning targets in fiscal year 1980. It should be remembered that regional planning targets are only targets; EDA keeps these targets flexible in order to be able to respond to opportunities or problems that emerge during each year.

Currently, EDA divides funds about equally between rural and urban areas. As expanded resources come to the Agency over the next several years, including the FMHA Business and Industry loan program and the SBA 501 and 502 programs particularly in the business finance area, the urban/rural division of funding will move incrementally to about a 60/40 split. As a result of the proposed increase in resources for the EDA program, both rural and urban areas will get substantial net increases in funds over what they are currently receiving.

Question

6. How will you determine what proportion of Title II will be devoted to public works versus adjustment assistance?

ANSWER:

The level of funding for the public works and adjustment assistance components of Title II is based largely on historic funding patterns. That pattern, in turn, has been based on demand, need and overall budgetary constraints. In FY 1979, for example, public works funding totalled $228.5 million; economic adjustment funds totalled $88.5 million. For FY 1980, these numbers remain fairly similar with, of course, the addition of $275 million development financing grants (the locational incentive program).

Senator RANDOLPH. Vernon Martin will be our next witness, and he will identify himself and his associate.

STATEMENT OF VERNON D. MARTIN, EXECUTIVE DIRECTOR, COASTAL AREA PLANNING AND DEVELOPMENT COMMISSION, BRUNSWICK, GA. AND PRESIDENT, NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS, ACCOMPANIED BY ALICEANN FRITSCHLER, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Mr. MARTIN. My name is Vernon D. Martin, and I am president of the National Association of Development Organizations.

I am accompanied by Aliceann Fritschler, who is the executive director of the National Association of Development Organizations.

I would like to express my personal appreciation to you and to Senator Burdick for allowing us to testify on behalf of the National Association of Development Organizations, and I would like to express my appreciation to you for the kind and strong comments you have made about the economic development program, particularly as it relates to the economic development districts.

As you know, in West Virginia and throughout the United States they have accomplished a great deal.

NADO is an advocate of balanced economic development for rural and urban areas. While we understand the need for economic development in urban areas, we urge that this not be done at the expense of rural America.

We are particularly concerned about the present flow of EDA funds which appears to be at the expense of rural areas. As you know, in 1979 Federal funding for the district program was raised from $10 million to $16 million, after a long and successful campaign by NADO for more funding for districts. These increased funds were to be used for funding 100 additional districts in this fiscal year. As of this date—well into fiscal 1979—these funds have not been released by the Office of Management and Budget. We hope this does not indicate a lack of commitment to the district program by this administration.

Our testimony today has two parts: The first contains our members' suggestions about changes needed in the current EDA program; and the second deals with proposals made by the administration on reorganizing economic development programs.

Mr. Chairman, over the years the Public Works and Economic Development Act has worked very well for the citizens served by the district program. NADO is delighted with the President's decision to strengthen the Economic Development Administration within the Department of Commerce. After careful study of all reorganization proposals, and based on our members' experience in economic development at the local level, our members voted overwhlemingly to support expansion and strengthening of EDA as the major development agency of the Federal Government.

We think that the success of the Economic Development Administration has been due in large part to the excellent legislative basis upon which its programs rest. Our organization's interest lies primarily in the district program. This program has made it possible for counties and cities all over this country to band together and promote job-creating economic development for their regions.

This concept, along with the overall economic development program, or OEDP as it is known, has proven its worth and NADO can report that the district program is alive and well today. NADO is proud to represent the local economic development districts here today and our recommendations for improvements in PWEDA will concern the strengthening of and improving the district program and the manner in which they are able to carry out their tasks.

Recently NADO did a survey of its members to obtain their views on the current EDA program. While many of the responses reflected concern with some of the new directions and new programs initiated within EDA during the past 2 years, some of them expressed views and constructive criticisms of the act itself. The following comments will, therefore, reflect those views:

One, the Public Works Act should allow for new initiatives, particularly in the area of energy, productivity development, export industrial development and vital services to small communities.

Two, programs such as the recent local public works program, LPW, should give more priority to well-developed plans of the economic development districts. If LPW-type projects are funded without regard to the OEDP this tends to weaken the concept of a well thought out economic development plan.

The economic development district is a strong element of the entire EDA system and should be strengthened by legislative mandate in the Public Works and Economic Development Act.

Four, EDA developed much of its fine reputation under the OEDP concept with total local control, and became known as a Federal agency that addressed the problem through planning at the local and district level. This planning process through the districts should be given added emphasis in the legislation as you consider it for reauthorization.

Five, the most important thing that should be stressed in any revisions to the act is its original intent—that of providing special economic assistance for those areas that have very high unemployment problems and serious economic distress. Within that concept, the very important factor of job potential, that is, how many jobs will be created, should be stressed even more.

Downtown revitalization has become an important part of nonurban regions. New legislation should embody some form of assistance for this kind of economic development.

Seven, many times industrial parks are built with EDA assistance but then lie idle for lack of follow-up promotional activities. Some type of expanded assistance should be mandated for the district program to provide an active staff of professional people who can seek prospects for those parks.

Eight, there should be a base planning grant of $50,000 mandated for every district, then additional planning funds based upon the population of the district and the programs operated by the districts in behalf of the local units of government.

Nine, district funding for A–95 clearinghouse review should be mandated under section 302.

Ten, to insure that a given project will be eligible to receive consideration regardless of whether or not it is a part of a compre-

hensive economic development strategy (CEDS), a provision should be added to section 101 insuring that consideration.

We urge these suggestions by NADO members be considered during your deliberations of PWEDA. We would be happy to suggest specific amendments to the act that would carry out the ideas expressed above.

I would now like to turn to some of the proposals made by the administration in its National Public Works and Economic Development Act, NPWEDA. NADO has the following comments on the concepts outlined by EDA:

Streamlined eligibility: While we can support consolidation and simplification of various eligibility standards proposed by the administration, we are very concerned about their effect on rural areas. We urge the subcommittee to review these criteria carefully to be sure that rural areas will continue to be eligible for a fair share of economic development funds. We endorse the concept of eligibility for pockets of poverty in rural and urban areas. However, we feel it is essential that EDA be required to accept State or local data for small rural areas which are not contained in the census data.

We also believe that sudden growth areas should be considered for economic development assistance.

Mr. Chairman, I had some experience in my area in Georgia, where we have experienced sudden growth problems. One is with a military base bringing in approximately 40,000 new people that has affected three counties in our area.

There is another military base in the southern part of our district, Camden County, and that base is to be the preferred site for the east coast Trident submarine base, and it will bring approximately 30,000 to 35,000 people into a county that now has a population of approximately 14,500.

Very few of the Federal agencies we deal with recognize sudden growth as a criteria for assistance for communities that are in dire need due to military growth. We would urge the committee to seriously consider sudden growth as an element of funding.

Senator RANDOLPH. Are you speaking of the impact of a new industry or industries or some extraordinary development from the standpoint of a military installation or it could be a mining operation?

Mr. MARTIN. Yes, sir.

Senator RANDOLPH. It could be something that would be a rather abrupt impact, and you want to have the machinery in working order to apply it to that particular, rather hurried request?

Mr. MARTIN. That is correct. I could cite several examples. I will use Fort Stewart as an example. The Army made an announcement of its intention to expand there. As a result, almost 40,000 people have been brought into a rural area. The communities were not ready or prepared to provide the adequate public facilities, water, sewers, electricity, roads, et cetera, and the community infrastructure that is needed.

As I sit here today, they are still not able to acquire the kinds of Federal assistance that could have assisted them to immediately react to this sudden growth. I heard last week Governor Lamm

talk about the same kinds of problems in Colorado associated with energy, where the West is experiencing the problems that we have.

We have a problem, and DOD says that is not their responsibility. The domestic agencies say it is not altogether their responsibility to assist in those areas.

The administration's proposed energy impact assistance program recognizes that sudden growth caused by energy development can have a devastating effect on local government and their public facilities. NADO supports the energy impact assistance program, but feels that local governments facing other types of sudden growth should also be eligible. We are pleased that the administration's proposed eligibility criteria would recognize various types of economic distress, not just one.

Two, capacity building, planning and technical assistance: We support an improved economic development planning process which requires coordination between Federal agencies and between State, local, and private interests. We believe the districts have proven that they are an effective catalyst for intergovernmental planning. NADO urges that any new intergovernmental planning strategy be built around the district concept. We believe States should be mandated to use districts where they now exist and that there be incentives to organize districts where they do not now exist.

Three, consolidate public works grants: We endorse the concept of a flexible public works grant and loan program that would be available to communities experiencing various types of economic problems. NADO also believes standby authority for a countercyclical public works program would be a worthwhile addition to the legislation. We urge that districts be made eligible for public works grants to tie together public works within the overall economic plan for an area.

Increased development financing: NADO strongly supports an expansion of private investment development financing, including the transfer of the business and industry—B and I—loan program of the Farmers Home Administration and the 501 and 502 programs from the Small Business Administration to EDA.

As advocates for rural areas, we feel that the B and I program belongs in EDA with other private investment programs. While Farmers Home does an outstanding job working with farmers, its employees are not oriented toward private business investment. EDA and districts have this as their major interest.

If the B and I program is moved, NADO asks that the program remain solely for rural areas and that the present eligibility critera and funding at the same level or more for the program be retained.

While we support an expanded Federal loan program for business, we urge that the program be carefully designed to insure that Federal tax dollars are not used to buy out local bank loans. We also believe phasing out the development financing program in over a 3-year period is a sensible strategy.

Mr. Chairman, earlier today it was mentioned that title IX funds were used to establish an employee stock ownership plan. Our area has such a program. In that program, we have used $5 million from EDA and $2 million from another company to salvage the liquidation of the third largest seafood corporation in the world.

This liquidation would have wiped out 800 jobs in our area of Georgia and 400 jobs in Brownsville, Tex.

With the help of EDA it will allow employees over 8 years to purchase 51 percent of the company. I am proud to report to you that the company last year had the finest year it has ever had in the history of the operation. We are using the funds made available through this program to establish the first rural development revolving loan fund in the United States, and recently approved a $100,000 loan to save a small steel company and $150,000 to allow a small company which manufacture grain-hauling truck trailers in Georgia to double its capacity.

We will continue to utilize funds in that program to assist many other small industries in our area to employ more people and create additional job opportunities as well as to leverage these funds with capital from local lending institutions to bring in new industry.

Five, board composition: While recognizing and endorsing the value of private sector involvement in economic development activities, NADO has, for many years, urged EDA to adopt more flexible guidelines regarding board composition requirements. We support flexibility in meeting board requirements for both new and existing districts so that private sector participation may be achieved in a way that is consistent with local needs and structures.

I would be happy to answer any questions, and I would like to express my sincere appreciation to you for allowing us to participate here today.

We realize EDA is being expanded by the new legislation. These programs are designed to improve the management of programs. We look forward to our continuing work with you and your committee, and I will be happy to answer any question you have at this time.

Senator RANDOLPH. Thank you very much, Vernon.

I feel like I can call you by your first name, because we understand these problems at the local level, and your district and districts all over America are part of our organization.

Mr. MARTIN. Yes, sir.

Senator RANDOLPH. And there is nothing wrong with my saying this, I hope they will be active in helping you to help us in drafting legislation at this point in the history of EDA, and probably expand EDA.

That is your purpose?

Mr. MARTIN. Yes, sir.

Senator RANDOLPH. There is nothing wrong with that.

Mr. MARTIN. No, sir.

Senator RANDOLPH. They need it, and those doors are not closed to you and such organizations that can help us. Even those that would be critical we would like to hear from them, and then sometimes we can change that to an understanding.

I want Aliceann Fritschler to know that we are conscious of her new assignment, and we wish her very well. You have in the past worked with organizations of this type, and now with this new effort, we wish you well. You have a problem and others have problems. And I have one now.

We are going to submit to you questions, and ask you to respond in writing, Is that agreeable to you?

Mr. MARTIN. Yes, sir. Most certainly.

Senator RANDOLPH. There are others besides myself that will have questions, but we will bring those together and place them before you.

Thank you very much, and have a pleasant afternoon.

We were scheduled to hear from Mr. Walter D'Alessio of the National Council for Urban Economic Development but he has sent word that he will be unable to appear. His statement will be made a part of the record.

[Mr. Hall's and Mr. D'Alessio's statements, materials submitted for the record by Mr. Hall, and the bills, S. 914 and S. 971 follow:]

STATEMENT OF ROBERT T. HALL

ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT

BEFORE THE

SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

UNITED STATES SENATE

ON THE PROPOSED

NATIONAL PUBLIC WORKS AND ECONOMIC

DEVELOPMENT ACT OF 1979 (S. 914)

APRIL 10, 1979

Introduction

Mr. Chairman and Members of the Committee, it is a distinct pleasure for me to come before you today and present the details of the Administration's proposed National Public Works and Economic Development Act of 1979. In the period since the President's decisions of March 1st on economic development programs and organization we have been developing the legislation which is before us today. On April 4, this legislation along with a Presidential message on economic development was submitted to the Congress.

As indicated in the President's message:

This legislation will help strengthen the economic development of distressed urban and rural communities. It will provide new private sector jobs and badly-needed income to the

citizens of these communities. It will strengthen their tax bases and attract new private investment. It will help these communities support essential public services without imposing high property taxes on their citizens. And it will help these communities and their citizens become more self-sufficient in the future.

Despite a period of strong economic expansion, there are numerous rural and urban areas that have not participated fully in our Nation's economic health. These areas still have high unemployment, low average incomes, substantial poverty and loss of jobs. They do not have enough private investment to provide jobs to their residents, nor do they have the private sector tax base to support essential public services.

The problems of these rural and urban communities have not been solved fully by national economic policies. These communities require special targeted aid to bring in new private sector jobs and investment. Only with this targeted assistance can we be assured that all areas of our Nation, both rural and urban, will participate in the Nation's economic prosperity.

This legislation marks the "coming of age" of Federal economic development policy. It is founded on an important lesson learned during the past two decades: that is, the billions of dollars legitimately spent on social welfare and community improvement and fiscal assistance programs must be

accompanied by sufficient jobs generated in the private sector in order to create real and lasting benefits for economically distressed people and places. The President's decision embodies a fullscale recognition of the enormous social, physical and economic costs borne by many areas of the country where obstacles to private investment result in disproportionate unemployment and low incomes. The National Public Works and Economic Development Act provides the nation with a significantly enhanced, comprehensive and focused program of economic development assistance to help these areas overcome the obstacles to private investment and private sector job creation.

President Carter's initiatives also symbolize a new era for EDA. These initiatives build on the long and substantial experience of EDA in responding quickly and effectively to many different economic problems in many different types of places. It capitalizes on EDA's placement within the Department of Commerce, which handles international trade problems, export promotion and productivity improvement--all of which have a direct relationship to declining industrial sectors and distressed regional and local economies. And it contemplates a level of resources for EDA which will enable us to make an even greater contribution toward fulfilling the mission established for the Agency in 1965 by the authors of the Public Works and Economic Development Act.

Before I move on, I must acknowledge the instrumental role played by this Committee in building the foundation on which the President's recent economic development decisions rest. You, Mr. Chairman and Members of the Committee, have been steadfast in your efforts to foster and defend the concepts and practices of economic development through the many years when they were ignored or even attacked by other policymakers. This Committee had the foresight to understand the key role economic development should play in the domestic policy of this nation. We look forward to working with you in the months ahead to secure the passage of this most important legislation.

The legislation we bring you today represents a distillation of EDA's experience under PWEDA. We believe that the principles which evolved under PWEDA are fundamentally sound and should form the framework for the expanded Federal economic development effort of the 1980's. Thus, while the new PWEDA restructures current authorities under fewer titles and contains simplified qualification criteria and expanded business finance authorities, most of EDA's basic policies, program and operating procedures are continued.

Perhaps it would be useful for me to highlight what features are the same and what is different.

46-633 O - 79 -- 5

Features That Are The Same

- Areas still have to be designated, and they will have to prepare Overall Economic Development Programs (OEDP's), which EDA will have to approve, prior to funding for most programs, OEDP's will still have to be prepared under the direction of a committee which includes representation from private sector and minority groups.
- EDA will still designate and fund multi-county economic development districts.
- Unemployment and low income will still be major factors in whether or not an area can be designated.
- Planning grants can still be provided to States, districts, Indian tribes, and local governments, whether or not they are eligible for designation.
- Development planning grants can still be made to areas suffering from economic dislocation.
- Grants can still be made for up to 80% of the cost of public facilities required for economic development in eligible areas.
- Grants can be increased to 100% for Indian tribes or for eligible local governments or development organizations which can demonstrate that they have effectively exhausted their taxing, fund-raising or borrowing power.

- Bonus grants of 10% (but in no case exceeding 80%, except as above) may still be made for projects in development districts.
- Technical assistance is still available to the same types of eligible applicants for the same types of purposes.
- Direct loans and loan guarantees are available to businesses when other financing is not available.
- Grants are available to areas suffering from economic dislocation.
- Grants are available to local governments for revolving loan funds.
- Research and demonstration projects are authorized.
- Public Works Impact Program (PWIP) projects are authorized.

Features That Are Different

- Eligibility criteria have been sharpened and improved so that definitions of distress are easier to understand and more pertinent to present circumstances. Areas previously denied designation which deserved to be eligible will now be eligible. Areas previously designated which do not need help are now ineligible.
- Authorizations and 1980 requests for appropriations are greatly expanded for all of EDA's major programs,

facilities grants, loans, loan guarantees, planning and technical assistance.

- Public facilities grants can be made in two increments, first for design and engineering and then for construction. This will reduce overruns.
- Grants can be made to public bodies to help defray as much as 15% of the cost of expanding or locating a private enterprise.
- Direct loans can be made for up to 75% of the cost of a project.
- The loan guarantee program is greatly expanded. Loan guarantees specifically will carry full faith and credit of the U. S. Government as to both principal and interest, and once made, will be incontestable. This will facilitate a secondary market, but if the secondary market lags, loan guarantees can be sold to the Federal Financing Bank.
- Interest subsidies can reduce the interest rate on both guaranteed and direct loans by 7 percentage points but not below three percent.
- Pockets of distress in otherwise economically healthy areas, both urban and rural, can be designated.

The legislation retains EDA's commitment to balanced economic growth. It retains our responsiveness toward the different types of structural economic problems which are experienced in both rural and urban areas. The increase in public works and business finance resources proposed for EDA will greatly enhance our ability to meet these principles of balance and responsiveness.

But we believe the restructuring and streamlining of PWEDA to be a necessary partner of these new resources in order to improve program's impact and administrative efficiency.

My intent today is to provide details of the proposed legislation, which incorporates into the present EDA program the features and the resources of the previously proposed National Development Bank. As you know, the President will later be submitting a reorganization plan to the Congress in order to transfer to EDA the business and industry program now administered by the Farmers Home Administration and SBA's local development corporation program. But I think it is important to note the opportunity provided by the President's decision to coordinate and supplement the types of assistance offered through the Farmers Home and SBA programs with the broad array of help which will be available from EDA. Such packaging will greatly increase the benefits accruing to recipients of Farmers Home and SBA assistance and will be supported accompanied by an expanded EDA delivery system which I will describe later in my testimony.

Let me offer one example of what I mean, Mr. Chairman. Many studies have shown that the absence of managerial talent is one of the more important reasons for business failure in the U. S. This problem is very apparent in many rural areas where small-scale firms which form the entire economic base of a community often lack the management skills to operate profitably or expand their businesses. In these cases the loan guarantee assistance available through the B & I program of Farmers Home is not enough. EDA would be able to supplement the B & I aid through the special private sector oriented technical assistance provision contained in our proposed business finance title. We have developed significant expertise in this field through the use of technical assistance in the trade adjustment assistance program, as well as through our university centers. In addition, of course, EDA's public works authorities could be used in conjunction with business finance and technical assistance to provide an even greater incentive to private investment.

Eligibility/Designation

As I said a moment ago Mr. Chairman, we intend to maintain EDA's basic approach to eligibility. Our thinking about this issue has been directed towards five principles:

- Responsiveness
- Balance

- o Targeting
- o Simplicity
- o Flexibility

Responsiveness: EDA is the principal Federal economic development agency. As such it must be responsive to the different forms of structural economic problems.

Balance: The Agency's eligibility should be balanced, showing a reasonable distribution by size and type of place, between urban and rural areas, and among the regions. Balanced national growth and economic development are fundamental to the overall health of the economy and we will continue to aim for their achievement.

Targeting: It is also the policy of this Administration that scarce public resources should be targeted to the people and places most in need. Areas will not be excluded arbitrarily. But we intend to serve only those areas that clearly demonstrate signficant structural economic problems as determined by standards that are equitable both nationally and regionally.

Simplicity: It is important to use criteria that are straightforward, simple and administerable.

Flexibility: And finally, we must maintain the flexibility to make investment decisions appropriate to the needs and opportunties of a particular place.

I might add, Mr. Chairman, that we have also been sensitive to the need to minimize the disruption of our on-going program.

Given our goals we examined the current qualifications system and the one proposed for the National Development Bank last year. We found that neither was wholly satisfactory. The Bank factors failed to meet our tests of responsiveness, balance and simplicity.

Turning to the existing EDA qualification system we concluded that its basic principles were sound but it had become an administratively unwieldy and confusing system which did not reflect adequately the current patterns of need around the country.

I believe, that the criteria we have developed do a better job of accomplishing the principles we've set forth than either the current system or the one earlier proposed for the Bank. This country, as I see it, has regional and local economies in several stages of development; many areas have different structural economic problems. We propose a range of eligibility factors for the different types of economic situations for which EDA has responsibility. These situations are:

1. Chronic problems of decline in developed economies;
2. Persistent underdevelopment and low incomes
3. Incipient economic deterioration;

4. Sudden and severe economic dislocations; and

5. Highly localized and concentrated distress.

Chronic Problems of Decline: For developed economies continued high unemployment is the core problem and the proper indicator. Accordingly, we propose five years of unemployment at a rate above the national average to qualify areas with chronic unemployment. To identify absolute decline we propose to use job loss over five years.

Persistent Underdevelopment: Underdeveloped and developing areas have different indicators of poor economic performance. Most people may be working but they are underemployed, or there may be many persons who are simply left out of economies that appear to be generally healthy. In such cases, overall statistics mask what is in effect a dual economy--one healthy, one in poverty. Low income and underemployment are the problems in these areas, and we propose to identify them through the use of two separate income measures: (1) those whose per capita income does not exceed 80% of the national per capita income average for the last available year; or (2) those where the proportion of population in poverty is in excess of 16.5 percent. In addition, the criteria which uses absolute job loss in areas of chronic decline will also bring in rural areas that find their traditional economies sliding out from under them.

Incipient Economic Deterioration: For areas with acute unemployment problems which have developed more recently and which may indicate long-term decline, we propose to use two years of unemployment which is at least 1% above the national average rate using 7.5% as the minimum unemployment level.

Sudden and Severe Economic Dislocation: EDA proposes to continue the current practice of making areas eligible for assistance when they have sudden and severe economic hardship and require adjustment assistance. Eligibility criteria for this type of problem measure the loss of a certain proportion of jobs in relation to the type of area -- either rural or urban -- and the overall level of unemployment. These criteria have already been developed for the current Title IX Sudden and Severe Economic Dislocation program and will remain the same under the new legislation.

Pockets of Distress: Finally, we propose to continue making it possible for small areas--both rural and urban--to become eligible through a pockets of distress provision. This provision would allow distressed areas within healthy cities and distressed small communities within healthy counties to become qualified if they meet one or more of the criteria for regular qualification--that is, high unemployment, low income, or net job loss.

I'm certain situations above proposed eligibility criteria would be adjusted by two modifications:

First, in some peculiar circumstances an area might meet one of these tests and still be quite well off. We should not offer economic development aid to those places, and so we propose not to qualify any area where the per capita income is 125% or more of the national average.

Second, we propose to continue the Agency policy of not contributing to the over-stimulation of local economies, whereeconomic growth is especially strong and expanding. We will not offer unneeded aid in instances where unemployment is simply a sign that a growing economy needs time to absorb new workers. Unless a place has extremely high unemployment -- that is, 175% of the national average -- it would not qualify under our proposal if job growth has been greater than 200% of the national rate over the past five years.

That summarizes our basic eligibility system for redevelopment areas. Let me now make a few comments about the patterns of results produced by these criteria. Much more detailed information will soon be made available to you. However, we cannot present at this time final figures because we are still refining the data and making additional analysis.

The criteria we are proposing would qualify redevelopment areas containing about 61% of the nation's population. That compares with 42% under what were the National Development Bank

factors and about 78% under the present PWEDA designated areas. Almost 70% of the non-metro or rural population would be in qualified areas under the new Act, and 55% of the population in urban areas. A large proportion of the eligible urban population would be concentrated in core urban counties.

These figures do not reflect the designation of pockets of distress, adjustment areas or development areas. We estimate that the addition of these areas would raise the proportion of eligible population by just a small percentage.

In addition, in considering the reduction in eligible population under NPWEDA as compared to PWEDA, it should be noted that some 24% of the population of currently designated areas are not presently statistically eligible and would not be eligible under the proposed NPWEDA eligibility criteria. Thus 80% of the population which will lose eligibility for assistance under NPWEDA are not presently statistically eligible under PWEDA.

When we have the final regional results, I think you will see the shape of economic development need in the country. Unlike the National Development Bank which was tilted to industrial areas facing severe decline, the criteria developed for NPWEDA have a responsive and balanced distribution outcome that also recognize the continued poor economic performance of underdeveloped rural areas.

In addition, the proposed factors include all of the top 30 cities classified as most distressed in a study done for EDA and 47 of the most distressed 50. This targeting exceeds that achieved through the Bank factors.

In summary, following the NPWEDA eligibility principles and criteria EDA will be able to focus its assistance on the diverse group of truly economically distressed rural and urban areas and communities distributed throughout all the regions of our country.

Planning and Technical Assistance

The planning and technical assistance authorities contained in Title I of the new legislation are essential to EDA's comprehensive economic development program. A good planning process produces the essential framework for subsequent decisions about the nature and location of public investments which stimulate private sectors activities.

A number of important principles about economic development capacity building are at the foundation of the Title I provisions. The first is the need to build capabilities at all governmental levels to take effective economic development action, regardless of their current economic condition. Local and regional economies are constantly changing; a growing, healthy local economy needs to manage its economic growth and

to deal with the economic problems which emerge. For these reasons, all States and local governments are eligible for planning and technical assistance. This will also make it possible for us to help local communities plan for economic development before their economies deteriorate to the point where they require more costly Federal hardware investments. We will continue, however, to give priority to the planning and technical assistance needs of distressed areas.

A second principle is the need for an economic development planning process which involves the private sector and representatives of the distressed population--including minorities. This has been a hallmark of the EDA program and has been important in developing successful local economic development programs. This process is retained and strengthened in the new legislation.

Title I also emphasizes the production of useful, practical strategies that guide the investment of economic development and related resources such as manpower and transportation, leverage private investment, and target resources to distressed populations. Strategies have always been a component of the OEDPs produced by Economic Development Districts and local governments. But our CEDS demonstration has begun to show us that greater attention to the strategy element can benefit both the locality and EDA.

We will not require complex, sophisticated strategies for areas whose economic development needs are relatively simple. We will handle the application of OEDP/strategy requirements flexibly in order to respond to areas with different needs and capacities. We will also work to have other Federal agencies accept the areas economic development strategy as a guide for Federal investments that affect economic development.

Finally, Title I reflects the need to involve all governmental levels in a process which identifies consistent and coordinated activities which are appropriate to each level. There should be constant communication and coordination among States, sub-state regions, and local governments in order to address issues which transcend jurisdictional boundaries.

The specific provisions of Title I authorize grants to State and local governments, sub-state planning and development agencies, and Indian tribes in order to conduct long-term economic development planning programs. The Title also provides for assistance to governments and private agencies to prepare adjustment plans for areas facing sudden economic dislocations. All areas are eligible for project specific technical assistance activities. Finally, the Title includes authority for EDA to give planning funds to sub-state regional planning and development agencies which, either by choice or by statistical ineligibility, do not participate in the District program.

Public Works Grants

The NPWEDA would consolidate in Title II all of the important public works authorities previously included in Titles I, IV, and IX of the current legislation. This consolidation will make administration of grant authorities more efficient and will simplify access to assistance by States and localities. EDA continues to believe that public works activities are critical in achieving an environment conducive to private investment, and we expect with expanded funding to be able to help more distressed areas than in the past. Public works grants would be available to designated communities and States facing chronic or incipient economic distress as well as to communities experiencing various economic adjustment problems. The States would also be able to use these grants to support projects and programs under State Investment Strategies approved by EDA.

The same type of public works activities that are eligible under the current law would be eligible under NPWEDA, that is, the design of public facilities, land acquisition and site preparation, construction and rehabilitation of public facilities and special projects to provide immediate jobs for the unemployed. In order to minimize cost overruns and improve project planning, the new legislation allows grants to be made in two steps--first to design and engineer public facilities and second to proceed with construction. This change will also

respond to the needs of poor, small communities which often lack the resources to cover design and engineering costs prior to EDA grant approval.

Under the new legislation, EDA would have explicit authority to provide incentives to private firms, normally in conjunction with other EDA business finance aid, through grants channeled through the local public sector. This is one of the most powerful means of reducing capital costs to a firm wishing to expand, remain or locate in a distressed place. Grants will be especially useful in those areas where site assembly and preparation are costly. The local public sector could use these grants to acquire and develop land, to construct, expand or improve commercial or industrial facilities, to pay for related machinery or equipment, and to improve public infrastructure. The assistance would be limited to 15 percent of the capital cost of an eligible private sector project.

Finally, Title II will allow EDA to make grants to States and eligible local governments to establish revolving loan funds for economic development purposes.

The resulting State and local business financing programs will help firms that have difficulty gaining access to local financial markets. It is expected that revolving loan funds will assist the expansion or retention of existing firms of all kinds, including new technology-based businesses.

46-633 O - 79 -- 6

Development Finance Assistance

The business finance authorities in Title III of the new legislation form the basis for a comprehensive economic development finance program. The purpose of this program is to provide incentives that will encourage the expansion, retention or location of private investment in distressed rural and urban areas of the country. This will be accomplished through the flexible application of the business finance tools -- in tandem with other EDA authorities -- to fill the credit "gap" for private firms operating in distressed areas and to reduce the extra costs associated with private investment in such areas.

Through EDA-sponsored research efforts we know that many smaller and medium sized firms that contribute a significant share of the employment in distressed areas do not have access to long-term capital due to characteristics such as their size or ownership structure. The higher cost of credit in economically declining or underdeveloped areas combines with the reluctance of many private lenders to make long-term loans for commercial or industrial purposes to produce severe obstacles for many firms. In particular, firms in distressed rural areas may have capital access problems because small, rural banks may lack liquidity.

The lack of long-term expansion capital for small and medium sized firms is confirmed in a report being released this week by the Congressional Research Service, which also cites the following additional economic development obstacles identified by prominent researchers:

1. a lack of funding for large scale redevelopment in central cities;
2. a lack of new product development finance for small-to-medium sized firms; and
3. limited access to capital markets by minority borrowers, especially those in central cities.

This credit availability problem is an important target of our proposed development finance program. Additionally, firms willing to locate in economically troubled areas may need subsidies to offset higher operating costs and other adverse business circumstances of life experienced in distressed areas. Locational incentives can be important as a method of stabilizing an area's economic base and preventing cumulative decline which is neither socially beneficial nor economically efficient.

Since the nature and degree of development finance problems vary so widely, an effective development finance program must be flexible and multi-faceted. Thus, Title III of the proposed legislation contains authority for direct loans, loan guarantees, and interest subsidies, together with sufficient funding to enable a greatly enhanced overall effort. The business finance assistance will be coordinated with grants under Title II to help defray associated business project costs and with technical assistance under Title I for feasibility studies and entrepreneurial aid. The funding authority earlier set aside for a liquidity facility in the National Development Bank will be moved into the loan guarantee portion of the new legislation, where its purpose can be accomplished more simply and efficiently. The application of a Federal guarantee on loans made by local lending institutions will, in effect, make these loans "liquid", create a secondary market for the loans and thus free up funds in local banks for relending.

All sizes and types of private firms in designated EDA areas would be eligible for assistance on projects consistent with local economic development strategies. Clearly, not every firm would need the full depth of subsidy possible under the program, and EDA will be tailoring its assistance to respond to the needs

of the firm and to the type and level of distress of the area. Criteria for deciding among applicants will include the job creation potential of the project (particularly for the unemployed and poor), the distress of the area, the level of private equity involvement in the project, and other factors to be developed through regulation.

Research and Demonstration

The final major elements of the new legislation are the research, evaluation and demonstration programs contained in Title IV. In the past, Mr. Chairman, I have shared with many in government an impatience with the world of research, probably because I rarely have seen a direct link between the immediate, tough decisions I often have to make and the research information available to me. But recently my perspective has changed, and I would like to share it with you now.

It is only through the research supported by EDA over the last few years that we have been able to develop--with any sense of confidence--a comprehensive development finance program that is responsive to the realities faced by the private sector in distressed areas of this country. This research has also provided us with much of the knowledge needed to choose a mix of eligibility indicators that achieves targeting as well as responsiveness to the complex set of economic development needs

of different places and regions. Finally, EDA research efforts have confirmed the vital importance of good economic development planning at the State and local levels and have produced many of the technical and policy tools that support such planning.

Also important for the formulation of good economic development policies are the evaluation and demonstration tools by which we can measure performance and test the feasibility of new and innovative approaches that may hold promise for more general solutions to problems of economic distress in this country.

In particular, the new legislation provides EDA for the first time with explicit authority to undertake demonstration programs. Agencies often initiate activities that are called demonstrations, but are not subjected to the rigorous testing and evaluation we feel is essential. The practice of economic development is in its early stages when demonstrations of innovative approaches in areas like export promotion and industrial distress can produce important advances if they are done carefully and effectively. The new legislation responsibly addresses this need.

Organization/Delivery System

As one part of our overall effort to carry out the President's reorganization proposals and to plan for the implementation of the National Public Works and Economic

Development Act, we have begun to tackle the tasks of organization and administration. We have recently completed a reorganization in Washington. This involved relatively modest changes. Some further modification may be required. EDA's field structure will not be reorganized until we know more about what responsibilities we will have and what resources will be available to us.

To the maximum extent possible, however, we do plan to utilize the existing network of Farmers Home Administration offices, SBA offices, HUD offices, economic development districts, local development agencies and State development offices to provide information and guidance to applicants for assistance under the new program.

By administering the Business and Industry program of Farmers Home Administration, the local development corporation program of the Small Business Administration, and the new and expanded EDA as an integrated program, we will be able to optimize the provision of services for EDA applicants. We also envision a delivery system whereby we can enter into agreements with local banks or banking groups to undertake major processing and servicing responsibilities so that we can move paper quickly and decisively and so that applicants can get quick and responsive service. We expect to make what is in many respects

a banking operation operate as efficiently as a well-run bank, while at the same time preserving the aggressiveness and interest for local development concerns that has been the tradition of EDA.

Budget

Now let me turn to the essential ingredient of any program--budget resources. The authorization levels in the proposed legislation coincide with the President's FY 1980 Budget requests. For subsequent years, the legislation authorizes the appropriation of such sums as may be necessary to carry out the programs. This approach is consistent with efforts to bring authorization levels in line with appropriation requests.

We are proposing a phased increase in funding for the new Development Financing Program. We believe this is responsible public policy and will provide the start-up and learning periods needed to assure efficient and effective program administration.

For NPWEDA we expect to request an appropriation of $1.3 billion for FY 1980. We wish to underscore, however, that we are in the process of refining our request and once approved by the President we will be submitting a formal budget amendment requesting exact funding levels. This consists of the $552 million already requested for our ongoing grant and loan programs. This request, combined with the authority to

guarantee $1.8 billion in private sector loans, will allow EDA in FY 1980 to provide more than $3.1 billion in total economic development assistance to distressed areas.

With regard to the loan guarantee authority, I want to call to your attention the new approach to debt management reflected in NPWEDA. This approach involves setting limits in authorizing legislation on the face value of loans that can be guaranteed in any one fiscal year. It also requires that agency budget requests include one year appropriations to honor demands in that year or previous years. Other features of this new system are authority to draw on the General Fund of the Treasury to meet any shortfall and authority for whatever additional appropriations are needed to replenish the General Fund.

Conclusion

I have spoken at some length about what EDA proposes to do under the new legislation. Let me now speak for a moment about what we do not intend to do:

- We do not intend to initiate a complete overhaul of the way EDA has carried out its program effort over the past 14 years. That way has proved to be highly successful in providing

communities and areas with the opportunity to set their own agendas for economic development action and in responding flexibly to the requests for assistance that grow out of those action agendas.

- We do not intend to bring new areas or communities into the planning assistance program at the expense of those already receiving assistance. It takes several years to build an economic development planning capability at the local level, and in the case of Districts, EDA has found that continuous administrative support is needed to assure effective operations over the long-term.
- We do not intend to use a new set of eligibility criteria and new legislation as a reason to focus most EDA resources in particular types of communities or regions of the nation. The same types of program considerations which form the framework for our current allocation of resources will be used to determine allocations under the new legislation.

Finally, Mr. Chairman, we do not intend to undertake any revisions of EDA regulations and procedures to implement the new legislation without prior consultation with this Committee and

its staff. I am confident that we can work together to enact this legislation. We seek your assistance in designing a program that will build upon the success we've had in the 60's and 70's in order to fashion a national economic development effort which will serve the nation well in the 80's.

TO THE CONGRESS OF THE UNITED STATES:

I am today transmitting to Congress the National Public Works and Economic Development Act of 1979. To millions of Americans in distressed urban and rural communities this legislation will mean new private sector jobs and economic progress, new income and new hope for the future.

OFFICIAL FILE

This legislation will help strengthen the economic development of distressed urban and rural communities. It will provide new private sector jobs and badly-needed income to the citizens of these communities. It will strengthen their tax bases and attract new private investment. It will help these communities support essential public services without imposing high property taxes on their citizens. And it will help these communities and their citizens become more self-sufficient in the future.

This legislation is based on one overriding fact of our economic life today. Our Nation can no longer afford to rely only on government to provide jobs and income to our disadvantaged citizens and to our distressed communities. We must continue to harness the vast resources of the private sector to help us meet these important challenges. The legislation that I am sending to Congress today is another major step in this direction.

Two years ago when I took office, our economy was struggling to recover from the deepest recession since the great Depression. Unemployment was high, industrial capacity was idle and the incomes of American workers were well below expectations.

Today more than 7.5 million new jobs have been created in our economy and factories across the country have regained high levels of production. Family incomes, after adjustment

for inflation, have risen substantially and so have business profits. Our economy is much stronger today than when I took office, just two years ago. . . -

Despite this period of strong economic expansion, there are numerous rural and urban areas that have not participated fully in our Nation's economic health. These areas still have very high unemployment, low average incomes, substantial poverty and loss of jobs. They do not have enough private investment to provide jobs to their residents, nor do they have the private sector tax base to support essential public services.

The problems of these rural and urban communities have not been solved fully by national economic policies. These communities require special targeted aid to bring in new private sector jobs and investment. Only with this targeted assistance can we be assured that all areas of our Nation, both rural and urban, will participate in the Nation's economic prosperity.

Since taking office, I have focused the resources of the Federal government on programs that will retain existing jobs, bring in new jobs and income, and expand the tax base of these economically troubled communities. I have expanded both the tax incentives and the Federal grant and loan programs available to businesses that remain or locate in these areas. With the help of the Congress we already have accomplished a great deal.

- o I have proposed, and Congress has enacted, legislation establishing the Urban Development Action Grant (UDAG) program in the Department of Housing and Urban Development. This program, which I propose to fund at $675 million in my Fiscal Year 1980 budget, provides grants to economically distressed cities and urban

counties for projects that create private sector jobs and new tax base in these communities. The first $599 million of UDAG grants have stimulated more than $3.6 billion of private investment in these communities. In addition, we have encouraged cities and counties to use more of their Community Development Block Grant funds for economic development projects.

- I have expanded funding for the economic development grant, loan and loan guarantee programs that are administered by the Economic Development Administration (EDA) in the Department of Commerce. EDA programs were funded at approximately $400 million in FY 1977 when I took office. If the legislation I am transmitting today is approved, our FY 1980 budget will contain approximately $1.3 billion in budget authority for EDA's economic development programs.
- With Congress' approval, I have greatly expanded the Farmer's Home Administration's business and industry loan program from approximately $350 million in loan guarantees in FY 1977 to $1 billion in FY 1980. This increase complements the substantial growth that I have proposed for FmHA's overall program.
- With Congress' approval, I expanded the existing Investment Tax Credit (ITC) to provide a ten percent tax credit for the rehabilitation of factories, warehouses, hotels, stores and other businesses. Previously, the ITC had applied only to new plant and equipment. My FY 1980 budget projects that $1.8 billion of private sector rehabilitation will be assisted by this tax credit.
- With the help of Congress, I have implemented a significant new tax credit to encourage private sector businesses to hire the economically disadvantaged. The targeted jobs tax credit will provide a tax credit of 50 percent of the wages, up to $3000,

for any employee hired from one of seven target groups. My budget estimates that a tax expenditure of $500 million will be required to implement this program in FY 1980.

- I proposed and Congress enacted amendments to the Comprehensive Employment and Training Act (CETA) which include provisions to make CETA more responsive to the needs of private sector employers. CETA's new private sector jobs initiative will allow CETA to reimburse private employers for part of the wages and other expenses incurred as part of on-the-job training or job-upgrading programs. I have requested $400 million in a supplemental that is urgently needed this year to fund this program.

As a result of these actions and the legislation I am transmitting today, the Federal government will provide more than $3 billion of direct expenditures and tax expenditures and almost $3 billion of loan guarantees to stimulate private sector jobs and investment in economically troubled communities and to encourage private sector businesses to hire the economically disadvantaged. This amounts to a 700 percent increase in both the amount of budgetary assistance and the amount of loan guarantee aid provided for these purposes above Fiscal Year 1977 levels.

To assist these communities further in regaining their economic and fiscal stability, I am hereby transmitting to Congress the National Public Works and Economic Development Act of 1979. This legislation is part of my overall effort to strengthen the Federal government's economic development programs. That effort will include:

- the National Public Works and Economic Development Act of 1979;
- a $275 million increase in the authorization for the UDAG program submitted early in March;

- o a reorganization plan to be submitted later this year that will transfer the Farmers' Home Administration's (FmHA) business and industrial loan program and the Small Business Administration's (SBA) State and local development corporation programs to EDA;
- o separate legislation that will consolidate the programs currently managed by SBA and FmHA into the consolidated economic development financing program in EDA. This legislation will be submitted after Congress has completed action on the reorganization plan; and
- o legislation that will reauthorize and expand the work of the Multi-State Regional Action Planning Commissions.

The National Public Works and Economic Development Act of 1979 will strengthen and expand the Federal government's ability to bring private sector jobs and investment to economically troubled urban and rural areas. The bill provides various incentives -- grants, direct loans to businesses, loan guarantees and interest subsidies -- to encourage businesses to invest in areas with high unemployment, low average incomes, significant poverty and loss of jobs. The bill will help to rejuvenate economically troubled communities in both rural and urban areas.

There are three major elements to this legislation. The first is a consolidated and substantially expanded public works and economic development grant program. It consolidates into one grant program the authorities previously included in Titles I, IV and IX of the current EDA legislation. The public works and economic development grants will be available for the design, construction and rehabilitation of public facilities; the capitalization of State and local government revolving loan programs; the funding of State economic development projects; the provision of assistance to private sector businesses that expand or locate in economically

troubled areas; and the financing of special projects that provide immediate jobs for the unemployed. I will request $575 million of budget authority in FY 1980 for this grant program.

A second part of this legislation authorizes a variety of financing incentives to encourage private sector businesses to remain, locate or expand in economically distressed urban and rural areas. The consolidated economic development financing program will make available direct loans, loan guarantees and interest subsidies to businesses that provide private sector jobs in economically distressed communities. It consolidates the loan and loan guarantee assistance currently available under EDA's Title II program with the financing incentives previously proposed for the National Development Bank. It will be the foundation for the consolidated economic development loan and loan guarantee program that I have proposed as part of my reorganization effort. My budget proposes that $570 million of budget authority and $1.8 billion of loan guarantee authority be available for this program in Fiscal Year 1980.

The third key part of this legislation will provide economic development planning assistance to urban and rural areas and technical assistance to both the public sector and the private sector. It will help State and local governments and the private sector strengthen their capacity to work together to rebuild the economic base of economically distressed urban and rural communities. I will request that approximately $90 million of budget authority be provided in Fiscal Year 1980 for this program.

The National Public Works and Economic Development Act will provide the foundation for the consolidated economic development loan and loan guarantee program that I announced

46-633 O - 79 -- 7

as part of my reorganization proposals. Later this year, I will transmit to Congress a reorganization plan that transfers to EDA the business and industry loan program from FmHA and the State and local development company loan programs from SBA. This reorganization plan will bring the major economic development loan and loan guarantee programs together into one economic development financing program in EDA. It will make it possible for the Federal government to provide one-stop service to urban and rural communities and private businesses that are seeking economic development loan and loan guarantee assistance. It also will streamline Federal aid in this area, reduce Federal red tape and improve the management of the economic development financing programs. After Congress has acted upon the reorganization plan, I will submit legislation that consolidates the SBA and FmHA program requirements into EDA's economic development financing program.

The economic development legislation, reorganization plan and accompanying program consolidations will substantially expand the economic development aid available to rural and urban areas. I intend to ensure that both rural and urban areas are guaranteed a fair share of the new resources. In addition, I will take every step to preserve and strengthen our capacity to deliver this aid to rural and urban areas efficiently and promptly.

This package of economic development legislation and reorganization proposals represents an important departure from previous urban and rural assistance efforts. For the first time, the Federal government is committing substantial resources to attracting private sector jobs and investment

to the lagging areas of our country. For the first time, we are asking the private sector to join us in our redevelopment efforts. I am hopeful that Congress will join me in this sensible approach to urban and rural problems and will enact this important legislation.

Jimmy Carter

THE WHITE HOUSE,

April 4, 1979.

April 9, 1979

OVERVIEW OF THE PROPOSED NATIONAL PUBLIC WORKS AND

ECONOMIC DEVELOPMENT ACT OF 1979

The legislation being proposed by the Administration to reauthorize programs operated by the Economic Development Administration (EDA) will be called the National Public Works and Economic Development Act (NPWEDA) of 1979. It is designed to strengthen the Federal government's ability to address the economic problems of all areas and regions of the nation, and it builds on the fundamentally sound principles and practices which have evolved under the current EDA legislation, the Public Works and Economic Development Act (PWEDA) of 1965 as amended. It accomplishes, however, a significant streamlining and expansion of the legislation which originally authorized EDA programs.

The new NPWEDA contains a simplified set of economic distress eligibility indicators that is sensitive and responsive to the widely varying forms of economic distress being experienced within the nation. It includes a flexible multi-billion dollar development financing program that will be critical to the achievement of the Carter Administration's goal of promoting balanced national growth and economic development. The consolidation and streamlining of previously diffused program authorities will improve EDA's ability to coordinate various program tools and to better deliver expanded economic development assistance to economically distressed States, areas, and communities and their residents. Finally, EDA's expanded overall budget and increased loan guarantee authority will enable the Agency to build successfully on its tradition of responding in an even handed way to different types of economic distress, such as high unemployment, chronic job loss, persistent low personal income, and sudden dislocations in local economies found in various parts of the country.

Major Features of the Legislation

Eligibility

Similar to existing legislation, the new NPWEDA provides for a three-step process leading to funding which includes statistical qualification, the preparation of acceptable economic development plans and strategies, and the development

of effective investment proposals. The new legislation, however, includes a significantly altered and streamlined statistical eligibility system which provides a straightforward way of identifying the different forms of economic distress faced by different regions and communities across the country. The intent is to refocus PWEDA's original emphasis on assistance to distressed areas by bringing into the program newly distressed people and places and withdrawing areas where economies are now sound.

The principles which guided the revision of the PWEDA eligibility standards were:

Responsiveness:	to the different types of structural economic problems -- those of underdeveloped as well as developed economies;
Balance:	to assure a balanced distribution of eligibility related to the needs of the nation's various regions and rural and urban places;
Targetting:	to assure that only places with substantial economic distress are eligible for assistance;
Simplicity:	to devise an eligibility system which is simpler than the current PWEDA system, is straightforward, administerable and understandable;
Flexibility:	to make investment decisions appropriate to the needs and opportunities of a particular place.

The major elements of this eligibility system are as follows:

1. A single simplified set of economic indicators which respond to the following types of economic distress:

- Chronic problems of decline - developed economies with persistent high unemployment or net job loss.
- Persistent underdevelopment and low incomes - underdeveloped or developing areas with high underemployment and persistent low incomes.
- Incipient economic deterioration - acute unemployment problems which have recently emerged and may be indicative of long-term economic decline.

- Sudden and severe economic dislocations - abrupt economic dislocation which occurs through the loss of a major employer, import competition, disasters, etc.

2. Areas meeting one or more of the following criteria of distress will be eligibile for designation under NPWEDA:

- An average unemployment rate for the most recent 5 years which is above the national average unemployment rate or a net job loss for the most recent 5-year period; or

- A per capita income level which is 80% or less of the national per capita income average or net job loss for the most recent 5-year period.

- An average unemployment rate for the most recent 24 months which is at least 1% above the national average unemployment rate and which is at least 7.5%; or

- The loss of a certain proportion of jobs in relation to the type of area (rural or urban) and the overall level of unemployment.

- A poverty population in excess of 16.5% of the total population of the area. In addition, subareas within healthy jurisdictions, both rural and urban, can become eligible as pockets of distress.

3. Assistance should not be given to areas with overall very high levels of average income. Therefore, any area which has a per capita income 125% or more of the national average per capita income is not eligible for designation; and in most cases any community (located within a designated area) with a similarly high per capita income level is not eligible to receive funding.

4. Economic development assistance should not be provided in areas whose economies are performing well, and where assistance would only over-stimulate those economies. Therefore, except in cases where the area's 5-year unemployment level is excessively high, i.e. 175% or more of the national 5 year average, no area can qualify on unemployment if its 5 year employment growth rate exceeded 200% of the national employment growth rate.

5. The eligibility system will also recognize that pockets of distress, located within otherwise healthy areas,

can occur in both urban and rural areas and should be eligible for assistance. This provision will generally apply to areas within ineligible cities or small communities within ineligible counties that will be able to qualify for assistance on the basis of a high proportion of population in poverty or the other criteria listed above.

Designation

Areas statistically qualified as distressed will be designated when they obtain approval from EDA of an Overall Economic Development Program which contains a useful and realistic economic investment strategy that emphasizes coordination of all available public resources and leveraging of private sector investment. Areas that were not designated under PWEDA but are statistically eligible under NPWEDA will have access to the expanded business development finance program for up to two years while they prepare their development plans for formal designation. In addition, any area designated under PWEDA but not eligible under NPWEDA may continue to receive all public works, planning and technical assistance available under NPWEDA for a period of two years following enactment.

Institutional Capacity Building

All planning and technical assistance activities would be provided for in a consolidated, streamlined capacity building title of the new legislation which recognizes:

- the need for an economic development or adjustment planning capability in all States, areas and communities, regardless of their economic condition, in order for them to address their economic futures in an effective way;

- the value of a cooperative intergovernmental planning process that recognizes the economic development roles of all government levels and encourages coordination;

- the need for comprehensive economic strategies that can serve as effective and coordinated guides for States, local and private economic development and adjustment decisions, as well as the development-related investment decisions of other Federal agencies; and

- the need for continued technical assistance to public and private sector agencies.

Public Works Grants

The NPWEDA consolidates in one streamlined title all of the public works authorities previously included in Titles I, IV and IX of the current legislation. The tools would be available to designated areas and States facing chronic or incipient economic distress as well as communities experiencing various economic adjustment problems. Uses of the public works authority would include the design of public facilities, land acquisition and site preparation, construction and rehabilitation of public facilities and special projects to provide immediate jobs for the unemployed.

Under NPWEDA, EDA would have expanded funds and authority to provide incentives to private firms through grants channeled through the local public sector. EDA's authority to use grants to capitalize State and local economic development revolving loan programs would continue. States would be eligible for funding of projects and programs that are consistent with State economic development strategies.

In order to improve project planning and minimize overruns, it will be possible to make grants in two steps -- first to design and engineer public facilities and second to proceed with construction.

Development Finance Assistance

The new PWEDA establishes for the first time a comprehensive, large-scale development financing program which will encourage the retention, expansion and location of private businesses in distressed areas by increasing the availability of capital and/or reducing the high costs associated with private investment in such places. This significant new development financing program, which builds on EDA's existing business financing program, would contain the broad array of tools necessary to meet, in a flexible way, the varied needs of different types of businesses in distressed rural and urban economies. These tools include direct loans, loan guarantees, and interest rate subsidies. Major elements include the following:

- Business finance programs will be coordinated with public works grants to provide the depth and type of subsidy necessary to induce private investment in various situations and locations.

- Authority will be included to provide a) direct loans of up to 75% of total project cost; b) guaranteed loans of up to 90%; and c) interest rate subsidies which would reduce interest paid by as

much as 7% (interest rates could not go lower than 3%).

- Federal loan guarantees will carry the full faith and credit of the Federal government for both interest and principal, thereby assuring a readily available secondary market for loans carrying these guarantees and freeing up capital in the private money market.

- An expanded technical assistance program will be authorized to assure that sufficient funds are available to the private sector for business development purposes.

- The business finance authorizations reflect a phased increase in funding to assure that the administrative capacity is in place for effective management of a much expanded program.

Delivery System

EDA plans to establish an expanded and streamlined delivery system which will provide for ten EDA regional offices and augmented EDA offices at the substate level conveniently available to local governments and prospective borrowers, as well as advanced electronic communications systems to permit rapid processing of projects and disbursements of funds.

Budget

In FY 1980 EDA's budget for the NPWEDA legislation will be $1.3 billion in obligational authority which will enable the agency to run a program of $3.1 billion when the face value of the guaranteed loans is included. The Agency is also seeking an additional $150 million for the inland energy impact program which will be outlayed through other legislation.

April 9, 1979

COMPARISON OF NPWEDA TO EXISTING LEGISLATION

The National Public Works and Economic Development Act of 1979 (NPWEDA) has been built on the foundation of the existing legislation and, to a large extent, retains the concepts and program tools of the present Act.* That Act, however, has been amended numerous times over the past 14 years, and NPWEDA consolidates and simplifies many of its authorities. In addition, NPWEDA reflects changes that have transpired both in the types of economic problems facing subnational areas and in the state-of-the-art of economic development.

The following are NPWEDA provisions that represent major differences from the existing Act:

1. Eligibility criteria have been sharpened and improved so that definitions of distress are easier to understand and more reflective of the different types of structural economic problems. Areas previously denied designation which deserved to be eligible will now be eligible. Areas previously designated which do not need help are now ineligible.

2. Pockets of distress in otherwise economically healthy areas, both urban and rural, can qualify and become designated for assistance.

3. The loan guarantee program is greatly expanded. Loan guarantees specifically will carry full faith and credit of the U.S. Government as to both principle and interest, and once made, will be incontestable. This will facilitate a secondary market, but if the secondary market lags, loan guarantees can be sold to the Federal Financing Bank.

4. Interest subsidies can reduce the interest rate on both guaranteed and direct loans by 7 percentage points but not below three percent. Sufficient budget authority exists to allow effective use of the interest rate subsidy tool.

5. Direct loans can be made for up to 75 percent of the cost of a project, as compared to 65 percent under existing legislation.

6. Grants can be made to public bodies to help defray as much as 15 percent of the cost of expanding, retaining or locating a private enterprise in a distressed location.

*Public Works and Economic Development Act of 1965 (PWEDA).

7. Public facilities grants can be made in two increments, first for design and engineering and then for construction. This will reduce cost overruns.

8. Major public sector (long-term development and adjustment) grant assistance has been consolidated in one title.

9. The Federal share of grants for environmental impact analyses will be 100 percent.

10. Explicit authority has been included to provide for a demonstration program needed to test the feasibility of innovative economic development approaches.

11. Provisions have been included for improved intergovernmental planning coordination and for coordination with the Comprehensive Employment and Training Act and other manpower programs.

12. Authorizations and 1980 requests for appropriations are greatly expanded particularly for the business loan and public works programs, including facilities grants, loans, loan guarantees, planning and technical assistance.

Following are major elements of the current legislation that will not be changed through enactment of NPWEDA:

1. Unemployment and low income will still be major factors determining whether or not an area can become qualified.

2. EDA will still designate and fund multi-county economic development districts.

3. Areas still have to be designated through the preparation of Overall Economic Development Programs which EDA must approve prior to funding for most programs. OEDPs will still have to be prepared under the direction of a committee which includes representation from private sector and minority groups.

4. Planning grants can still be provided to States, districts, Indian tribes and local governments, whether or not they are eligible for designation.

5. Development planning grants can still be made to areas suffering from economic dislocation.

6. Direct loans and loan guarantees are still available to businesses when other financing is not available.

7. Grants can still be made for up to 80 percent of the cost of public facilities required for economic development in eligible areas.

8. Grants can be increased to 100 percent for Indian tribes or for eligible local governments or development organizations which can demonstrate that they have effectively exhausted their taxing, fund-raising or borrowing power.

9. Bonus grants of 10 percent (but in no case exceeding 80 percent except as indicated above) may still be made for projects in development districts.

10. Grants are available to areas suffering from economic dislocation.

11. Grants are available to States and local governments for revolving loan funds.

12. Projects to produce immediate construction jobs--formerly known as Public Works Impact or PWIP projects--are still authorized.

13. Technical assistance is still available to the same types of eligible applicants for the same types of purposes.

NPWEDA ELIGIBILITY--PRINCIPLES, TYPES OF ECONOMIC DISTRESS AND ELIGIBILITY CRITERIA

April 9, 1979
Rev.

PRINCIPLES

1. RESPONSIVENESS
   To different forms of structural economic problems.

2. BALANCE
   Reasonable distribution by size and type of place.

3. TARGETING
   To assure that only places with substantial economic distress are eligible for assistance.

4. SIMPLICITY
   An eligibility system which is straight forward, administerable and understandable.

5. FLEXIBILITY
   To make investment decisions appropriate to the needs and opportunities of a particular place.

TYPES OF ECONOMIC DISTRESS

1. Chronic problems of decline - developed economies with persistent high unemployment or net job loss.

2. Persistent underdevelopment and low incomes - underdeveloped or developing areas with high underemployment and persistent low incomes.

3. Incipient economic deterioration - acute unemployment problems which have recently emerged and may be indicative of long-term economic decline.

4. Sudden and severe economic dislocations - abrupt economic dislocation which occurs through the loss of a major employer, import competition, disasters, etc.

5. Highly localized and concentrated distress - the existence of pockets of high unemployment and low income in otherwise stable or growing economies.

ELIGIBILITY CRITERIA

Any area would be eligible if it met one or more of the following:

1. An average unemployment rate for the most recent 5 years which is above the national average unemployment rate or a net job loss for the most recent 5-year period; or

2. A per capita income level which is 80% or less of the national per capita income average or net job loss of the most recent 5-year period.

3. An average unemployment rate for the most recent 24 months which is at least 1% above the national average unemployment rate and which is at least 7.5%; or

4. The loss of a certain proportion of jobs in relation to the type of area (rural or urban) and the overall level of unemployment.

5. A poverty population in excess of 16.5% of the total population of the area. In addition, subareas within healthy jurisdictions, both rural and urban, can become eligible as pockets of distress.

ELIGIBILITY EXCEPTIONS - An area would <u>not</u> be eligible if it had one or more of the following characteristics:

(A) Areas with overall very high levels of average income that are not in need of economic development assistance - an average per capita income which is more than 125% of the national average.

(B) Areas where employment is growing rapidly and high levels of unemployment area due to the heavy inmigration of workers who are eventually absorbed into the economy - job growth greater than 200% of the national rate over the past 5 years unless the unemployment rate was 175% of the national average.

April 9, 1979

A Description of the Expanded
EDA Business Development Finance Program*

Context of the Development Finance Program

The indicators of urban and rural economic development are jobs retained and jobs created, a stabilized or increased tax base, a local environment attractive to people and firms, and, in addition, the continuing local capacity to plan and carry out realistic economic development programs.

The EDA program overall and the business development financing program in particular are aimed at strengthening the private sector economies of distressed places -- those areas characterized principally by high unemployment and low income. EDA's guiding principle is to strategically use limited public resources to lever larger amounts of private investment to stimulate, improve, and diversify local economies through the creation of private sector jobs.

The specific purpose of the business development financing program is to make credit available and to reduce the cost of credit where necessary in order to encourage firms to remain, expand, or locate in distressed rural and urban places. A broad array of financing tools will be available to EDA: direct loans, loan guarantees, interest subsidies, and grants.

By themselves, these financing tools will not reverse the economic decline of distressed areas. Their effectiveness in stabilizing and improving local economies will depend in large degree upon the capacity of localities to coordinate business finance assistance with the other components of EDA's comprehensive economic development program. These components include assistance to supply new or upgraded public infrastructure; targeted aid to firms hurt by import competition; planning and technical assistance to develop and enhance the capacity of local governments and quasi-public development organizations to plan and carry out economic development activities; technical assistance to improve the management of private firms and to perform feasibility and productivity studies for their use; and local revolving loan programs that provide low cost debt capital to firms in distressed places.

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*Not included are SBA's 501 and 502 program and the FmHA B & I loan program. These programs will be transferred to EDA in a reorganization plan.

The end product of EDA's comprehensive economic development program is to set in motion and sustain a local economic development process--a joint venture between the public and private sectors which results in job generating investments capable of bringing distressed communities closer to the goal of economic health.

Problems which the Program Addresses

The EDA business development financing program tackles two serious problems that impede private investment:

A. The lack of available credit
Firms in distressed locations--particularly if they are of moderate size, marginally profitable, new ventures, minority-owned, or involve new technology--may not have access to long-term capital. Their lack of access to capital may be due to the following: lender preference for making loans in non-distressed areas; the credit history of the firm or its ownership structure; lack of liquidity on the part of smaller banks; fear that long-term loans for commercial or industrial purposes will endanger a lender's liquidity position; preference on the part of some lenders for making large loans.

B. The high cost of credit
High interest rates reflect the perceived riskiness of both short and long-term loans. This higher risk may be due to the characteristics of the company and/or the type of area in which it is presently located or wishes to locate. Firms of moderate size, new ventures, minority-owned companies, new technology firms are commonly viewed as high risk investments and interest rates are set accordingly. Distressed urban and rural locations are also seen as high risk investments.

C. The high cost of doing business in distressed places

Distressed locations tend to be more costly places in which to operate a business. Capital is one cost to a firm; other major costs are land, labor, material, energy, and transportation. Distressed urban areas often have high land assembly, energy, and labor costs whereas distressed rural areas may have high land preparation and public infrastructure costs.

As a general rule, businesses choose locations where the costs of operation will enable them to make a profit or become more profitable.

The business development financing program will reduce one important component of a firm's total cost -- the cost of capital. The combination of the guarantee, and interest rate subsidy of 7 percent, and a grant can reduce a firm's capital cost by 54 percent. This sizable reduction in the cost of credit can offset some of the higher costs of doing business in distressed places and, thus, make them more attractive to private investment.

Rural and urban locations that are economically distressed are linked by one fundamental characteristic: neither has been successful in nurturing firm expansions and in incubating new businesses. This failure to provide an environment conducive to new employment growth may be due to capital market imperfections or to the higher costs of doing business in distressed locations.

Firms in distressed rural areas may have capital access problems because small, rural banks may lack liquidity. Distressed urban area firms may have problems gaining access to reasonably priced credit due to the riskiness of their location. Underdeveloped distressed rural areas lack a firm base of past economic development activity that can protect the investment of lenders and firms. Mature, declining cities present problems of population outmigration, deteriorating infrastructure, and site assembly delays that make more problem-free locations attractive to investment.

The business development financing program will contain a comprehensive set of tools for addressing the problems of credit availability and cost as well as the higher cost of doing business in distressed places.

Program Tools and How They Address Credit Availability, Cost of Credit, and High Operating Cost Problems

I. Direct loans for up to 75 percent of an applicant's costs for fixed assets or working capital. Although loans will normally be made at the Treasury borrowing rate, EDA will have the authority to make a direct loan at an interest rate that is lower than the Treasury rate. In this case, the interest rate cannot be reduced by more than 7 percentage points. In no event can the borrower pay less than 3 percent per year in interest.

Direct loans are effective in solving credit access problems when a firm's size and location combine to make it a more risky venture. In periods of tight money, direct loans are essential to smaller, more risky firms, especially to permit their continued operation.

II. Guarantees for up to 90 percent of fixed assets or working capital loans. In most situations, a guaranteed loan will not be further subsidized with grants or interest rebates. In those cases where EDA finds it necessary to subsidize the interest, the interest rate can be reduced by up to 7 percentage points. In no event can the borrower pay less than 3 percent per year in interest.

Loan guarantees reduce the risk of loss on the loan to the private lender and should enable the lender to charge a lower interest rate and set a longer term than he might otherwise. Thus, firms will gain access to capital at less cost and at longer maturities than they would without the guarantee.

The EDA guarantee will facilitate the creation of a secondary market for economic development-oriented business finance paper. In addition, guaranteed loans do not count against a bank's legal lending limit. Thus, in effect the guarantee will provide liquidity to banks, encouraging them to lend to eligible projects in the first place and supplying them with new sources of loanable funds. This liquidity provided through the EDA guarantee will be especially useful to smaller banks that may have liquidity problems.

46-633 O - 79 -- 8

III. Interest subsidies on guaranteed and non-guaranteed loans for fixed assets and working capital. Interest rate reductions are limited to not more than 7 percentage points. In no event can the borrower pay less than 3 percent per year in interest.

Interest rate subsidies act directly on the cost of capital. Exisiting firms in distressed locations may need reasonably priced working capital or expansion capital. Interest rate subsidies could also be appropriate to firms desiring to locate in a distressed place and needing lower priced credit to offset some of the higher costs of doing business in that locale.

IV. Grants to local public entities to defray up to 15 percent of the capital costs of an eligible private sector project.

Grants are the most powerful means of reducing capital costs to a firm; they provide the deepest up-front subsidy. By cutting a firm's initial capital costs, the grant can provide needed cost savings when the firm is most vulnerable. The cost savings due to the grant can benefit the firm over the long term.

Grants will be especially useful in those distressed areas where site assembly and preparation are costly.

Eligible grant activities include these items:

(1) the acquisition and development of land.

(2) the construction, alteration, rehabilitation, expansion and improvement of a commercial or industrial plant (including related machinery and equipment).

V. Technical assistance grants to firms to provide management assistance, feasibility studies, productivity analyses and other assistance tailored to their needs and to their plans to remain, expand, or locate in distressed areas.

Reasonable assurance of repayment will guide the use of all of these business assistance tools.

Is this a Credit Availability or Locational Incentive Program?

EDA's business financing assistance is a program both to overcome credit access problems and to use credit to influence a firm's decision to locate in a certain place. There is no way of telling in advance which feature will have greater emphasis since projects will percolate up from the local level.

Each tool is neither strictly a credit availability tool nor a locational incentive. Whether it is one or the other will depend upon the needs of the particular firm and the attributes of the particular place. A direct loan, for example, which is usually viewed as a credit availability tool, can be a powerful location incentive, if in its absence, the firm would not locate in a specific area.

EDA business assistance cannot be used to help a firm relocate from one area to another.

Eligibility for Business Development Financing Assistance

The purpose of the program is to make possible private investment in economically needy places as determined by NPWEDA eligibility criteria that would otherwise not take place. The primary condition for assistance is a determination that credit is not available elsewhere on terms adequate to achieve the program's objective of retaining and creating private sector jobs.

All size of firms will be eligible for assistance. The problem of gaining access to reasonable capital is not restricted to a certain size of firm, but moderate sized companies, particularly new small firms, have the hardest time. Higher operating costs in distressed locations affect all firms. To induce a large, credit-worthy firm, for example, to locate in an inner city industrial park may require reducing the cost of capital to that firm to compensate for the increased costs of land assembly there compared to a suburban site.

To attract a credit-worthy, labor-intensive firm to a remote, distressed rural location may depend upon reducing its capital costs in order to offset higher charges for transporting its products to market. Clearly, not every firm needs the program. EDA will be tailoring the assistance so that it responds to the needs of the firm and the degree of distress of the community.

Projects are eligible if they are in EDA designated areas, except that places which statistically qualify but do not yet have approved Overall Economic Development Programs may receive business financing assistance (except the grant) for a period of two years.

Criteria for Selecting Among Applications

In deciding among applications, EDA will place greatest importance on these four factors:

(1) the extent to which the proposed project will provide long-term private-sector jobs for area residents, particularly unemployed, long-term unemployed, low-income and socially and economically disadvantaged residents;

(2) the degree of distress in the area;

(3) the level of private-sector equity investment in the project; and

(4) the degree of benefit to socially and economically disadvantaged persons and the degree of benefit to firms owned by such persons.

Other factors that will influence EDA's decisions are the consistency with local and state plans, the degree of local economic development effort, and the project's contribution to the area's economic and fiscal base and compatability with the skills of local labor.

Conclusion:

EDA will provide a comprehensive set of business financing tools, backed by adequate resources, that can be tailored to make credit available at reasonable costs and over sufficient periods to firms in distressed areas. The same set of tools can lower a business' total operating costs and thus, lessen the economic disincentives to locating in a distressed place.

The business development financing program is an essential complement to the EDA public works program; both are needed to create the private-sector jobs that are the source of viable local economies.

KEY RESEARCH FINDINGS IMPORTANT IN THE DESIGN OF THE NATIONAL PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1979

Summary Prepared by

Office of Policy, Evaluation and Research
ECONOMIC DEVELOPMENT ADMINISTRATION

April 9, 1979

SUMMARY OF KEY RESEARCH FINDINGS IMPORTANT IN THE DESIGN OF THE NATIONAL PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1979

Introduction

The Economic Development Administration's (EDA's) research evaluation program has contributed importantly to the design of the comprehensive economic development program proposed in The National Public Works and Economic Development Act of 1979 (NPWEDA). The research program, which is reauthorized in Title IV, provided much of the information needed to ensure we were designing an effective Federal effort to encourage and support balanced national economic growth and development.

This paper reviews the key findings of current and ongoing research which have guided the Agency in designing the following aspects of the program:

- Area eligibility, e.g., what are the types of local economic distress, and what available data are appropriate to identify areas suffering legitimate problems of economic development?
- Grants to support public infrastructure investments and other economic development and adjustment programs, e.g., what are the new promising ways in which States and local areas might use Federal grant assistance to "help them help themselves" to lever and attract the private investment needed to grow and stabilize their economies?
- Development finance, e.g., what types of direct private sector assistance are needed to maintain and expand private investment in distressed areas?
- Planning and technical assistance, e.g., what are the needs for planning and technical assistance which EDA should be able to address?

Area Eligibility

EDA's new authorizing legislation proposes four eligibility criteria, any one of which would qualify an area for funding consideration:

1. High unemployment rate--five years above the national average, or 24 months at least 1 percent above the national average and at least 7.5 percent

2. Low per capita income--per capita income less than 80 percent of the national average

3. Declining employment--net job loss over five years

4. Significant poverty--poverty population of 16.5 percent or more of total population

However, two constraints are added: no high income area (125 percent or more of national per capita income) or rapidly growing area (employment growth exceeding 200 percent of the national average over the last five years) would qualify, even if they met one of the four criteria. In addition, small pockets of concentrated poverty may qualify even if the jurisdiction to which they belong does not.

The decision to include several criteria reflects EDA's recognition that economic development problems differ among regions and between urban and rural places. While employment is commonly perceived as the typical indicator of economic distress, research has shown that use of that indicator systematically discriminates against certain regions and types of places.

EDA sponsored several research studies that help elucidate the nature of the criteria and the minimum number of criteria necessary to qualify those areas legitimately suffering from economic development problems. These studies support the choice of the above criteria and constraints as follows.

1. David W. Stevens, An Examination of the Use of Labor Force Data in Targeted Subnational Economic Development Policy, 1979.

   - Unemployment data, besides being often unreliable and inconsistent between places, do not serve as proxies for low income, poverty, or decline indicators. In fact, there is some empirical evidence that income levels and unemployment levels vary directly. (This finding showed the need for independent measures of of income and decline.)

   - Growing areas may experience significant in-migration resulting in high unemployment rates. (This finding reinforced the need for a constraint to eliminate consistently growing places that would otherwise have qualified under the unemployment criteria.)

   - Local area unemployment rates tend to fluctuate from year to year. (Thus, to avoid including places suffering from temporarily high levels of unemployment, the rate should be measured over a long period of time.)

   - Local area unemployment rates tend to follow national trends. (Thus, to target on areas that are suffering from abnormal unemployment, national trends must be taken into account.)

2. Data Resources, Inc. Their comprehensive data system was used to test alternative eligibility criteria. One of the findings was that the use of a low per capita income threshold excluded many urban and rural places that had large poverty populations but such skewed income distributions that the average income was still higher than the threshold. Thus the fourth criteria of percentage of poverty population was added.

3. Jusenius and Ledebur (1976, 1978) documented regional variations in types of economic development problems by using differing economic indicators. According to their work, the South (South Atlantic, East South Central, and West South Central) is characterized by low per capita income while the North (New England, Middle Atlantic, and East North Central) is characterized by high unemployment and a low rate of economic growth. The latter study (1978)

looked more closely at the problems of firm and employment loss in the three northeast regions. They concluded that this form of distress has been greatest in the Middle Atlantic and New England.

4. Garn (1978) considered strategies for improving urban economic performance. Based upon a review of the available literature, Garn used the following set of indicators to assess the relative economic distress of U.S. cities having 100,000+ population:

   - changes in the number of jobs between 1970 and 1975;
   - per capita income levels in 1974;
   - change in per capita income between 1969 and 1974;
   - unemployment rate in 1976;
   - change in unemployment rate from 1970 to 1976.

These indicators reflect the same concerns as the first three EDA eligibility criteria. The resulting set of EDA eligible cities is fairly consistent with the ranking of economically distressed cities developed by Garn's analysis.

One additional study, though not sponsored by EDA, is of particular interest here:

5. Firestine (1977) examined the relationship between economic growth and inequality in the South. He concluded the following:

   - Southern economic growth has been, for the most part, an urban (and central city) phenomenon which has brought little benefit to the rural poor.

   - Within metropolitan areas economic growth has not measurably reduced the existing problem of income inequality.

Grants for Public Works and Other Economic Development and Adjustment Purposes

The new NPWEDA program maintains the public works authorities of the current EDA legislation and adds new authority to support business finance projects and to capitalize State and local economic development loan programs. The research program has sponsored studies which identify the historic importance of the current public works grant program as well as studies which have suggested new and important uses for development grants. Of special interest are the uses of grants to support the expanded business finance program. These studies are listed along with findings which are relevant to the draft legislation.

1. Robert E. Graham and Randolph Martin. The Economic Impact on Local Areas of the Program of the Economic Development Administration, University of South Carolina, 1977, and

2. B. F. Kiker and Randolph C. Martin. The Economic Impact on Local Areas of the Program of the Economic Development Administration: Some Additional Evidence, University of South Carolina, 1979.

   Counties receiving ARA-EDA assistance were demonstrated to have faster growth rates than their counterpart counties in the same regions. During the pre-ARA period of the 1950's, the growth rate of the pre-aided counties was lower than the unaided counterpart counties in 43 out of 47 of the county groups. This result demonstrates a definite association between EDA assistance and the rate of economic development.

   There is a significant relationship between the amount of aid a county receives relative to its economic size and its level of economic development. This relationship demonstrates the direct link between the degree of EDA assistance and the degree of economic growth.

3. Belden Daniels and Michael Kieschnick. Theory and Practice in the Design of Development Finance Innovations, 1978.

   Capital grants to aid business development are more effective than the alternative tools of development finance. A grant has a larger effect on investment return than a subsidy on tax deductible interest. This finding supports the use of grants to defray private sector economic development costs.

4. Peter J. Bearse, editor. Mobilizing Capital for Economic Development: Institutional Innovation and the New Urban Policy, papers and proceedings from a conference held at Princeton University, April 27, 1978.

   Local government should play a new role as a planner and mobilizer of development investment. This new role would entail cooperation with the private sector to guide investment decisions toward social as well as private criteria. Investment could then be more easily targeted toward underdeveloped sectors and areas of the local economy. This finding supports the use of grants to capitalize State and local economic development revolving loan programs.

Development Finance

The new NPWEDA calls for a comprehensive and large scale development finance program to promote development through the establishment, expansion, and retention of firms in depressed areas. This program will utilize direct loans, loan guarantees, and interest rate subsidies for fixed asset, plant and equipment, and working capital to provide for the varying needs of different types of business enterprise in different areas.

The decision to include several tools in the development finance program reflects the need to account for the differing requirements of new as opposed to established firms, or single establishment as opposed to multi-establishment firms, and of stable as opposed to high-risk enterprises. Different types of firms and establishments in different circumstances will require different financing aids.

- Established firms with adequate fixed capital may require working capital assistance to maintain operation during a temporary business decline.
- Firms perceived risky by individual private lenders, each of which will tend to overstate the true social risk, may need interest subsidies and loan guarantees to maintain capital availability at acceptable rates. These firms are especially important to net new job creation.
- Newer firms may need several of these tools to finance capital assets and maintain liquidity during the business establishment period.
- Locational subsidies may be needed in particular distressed places to offset the temporarily higher costs of doing business in these places.
- The first businesses which locate in less developed rural areas will tend to have higher costs as will firms locating in developed, declining areas.

EDA has sponsored several studies which have identified a need for these program tools. The following are particularly timely.*

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*These studies are also reviewed in a soon-to-be-released Congressional Research Service report on capital shortages in distressed areas.

1. Belden Daniels and Michael Kieschnick. Theory and Practice in the Design of Development Finance Innovations, 1978.

   The private capital market may not perform efficiently because of an inadequate diversification of risk, inadequate information, high transaction costs, or even prejudice to certain types of loan applicants. These market imperfections cause particular capital hardships to new and risky ventures which may find loans unavailable at any interest rate. These observations point up the need for direct loans and loan guarantees to open the capital market to lenders who would qualify for loans under a more effectively functioning capital market environment.

   Local development authorities should participate by directly negotiating loans through EDA. This would provide local expertise and involvement without limiting the program to the loan policies of local banks which do not adequately finance new, low asset, and risky firms.

   A new law should provide for technical assistance to firms that are not large enough or well enough financed to provide these services to themselves.

2. David L. Birch. The Job Generation Process. MIT Program on Neighborhood and Regional Change, 1979.

   Between 1974 and 1976 approximately 75 percent of the new jobs in the Northeast and 80 percent of new jobs elsewhere were generated by firms 4 years old or younger. This finding demonstrates that a substantial segment of the job-creating potential in the business community is in those firms which have the greatest difficulty qualifying for loans in the private capital market. This finding supports the contention that improved capital availability to new firms will be an efficient means to generate new employment.

   Migration of firms was not important to the growth of any region. Differences in growth rates between regions were primarily due to differences in the rates of firm formation and expansion. This finding supports the conclusion that development in distressed areas should not adversely affect employment in other areas.

   The most volatile establishments (i.e., those experiencing the largest gains and losses in employment) will likely be the largest job generators if they can survive. This finding supports the conclusion that

improved credit availability to volatile firms through loans and loan guarantees which enable risk-sharing should generate considerable employment.

3. Roger W. Schmenner. The Manufacturing Location Decision: Evidence from Cincinnati and New England. Harvard Business School and Harvard-MIT Joint Center for Urban Studies, 1978.

Growing firms sometimes find advantages in opening branch plants rather than expanding existing outmoded facilities. Branch plants are usually smaller and more simply organized than headquarters establishments. Yet they are likely to occupy less congested one-story sites and utilize newer technologies of production than the headquarters establishments. Although headquarters establishments seldom move, it is conceivable that the choice of headquarters expansion versus a branch start-up could be influenced by some form of locational subsidy. This could take the form of either interest rate subsidies or public sector site-related grant assistance.

4. Kenneth L. Hubbell. Development Banking and Financial Incentives for the Private Sector, 1978.

Protecting establishments in distressed areas can contribute to National Product by continuing the utilization of local labor and existing infrastructure.

Establishments in distressed areas are often characterized by older efficient production facilities, particularly if the facility is in a central city. These establishments could leave the distressed area for less expensive-to-operate facilities in nondistressed communities. This situation could be ameliorated with direct loans and public works grants to develop new, more modern facilities in the distressed area.

Working capital may be important in the short-term to assure survival of these firms.

Planning and Technical Assistance

Participation in the economic development process at all levels of government has been, and is, a principal tenet of the EDA programs. NPWEDA would provide economic development assistance to all government levels, regardless of the economic condition of their areas. The Agency has over the past several years supported research to define and support the role of each participant in the development process. The research program has provided information and analytic tools to make State and local participation an effective means of mobilizing their resources and of reflecting their needs and concerns.

The EDA program also recognizes the need for specific studies to provide expertise and analysis in conjunction with specific projects and problems. The need for technical assistance is particularly apparent in smaller communities, small-scale industries and in very distressed urban locations. Direct assistance of this type would be cost effective by increasing production efficiency and preventing the need for more costly hardware investments. This new program would provide direct technical assistance to firms as well as local authorities in all areas.

The following are examples of EDA research products focused on policy and planning activities at the subnational level:

- A Handbook for Evaluating Economic Development Programs, by Lazar Management Group, Inc.

  A handbook developed primarily for Economic Development Districts outlining the procedures for constructing an overall development evaluation. It encompasses measurements of job impacts, infrastructure investment impacts, as well as the development of a concise and useful profile of the local economy.

- State Economic Planning and Policy and Technical Research Series, by the Council of State Planning Agencies

  The reports are designed to be of practical use to State planners, policy officers, and students of State government. The reports cover the fundamentals of State planning, intergovernmental strategies, and the policymaking aspects of the economic development planning process.

- EDA Urban 302 Research Project, by the National Council for Urban Economic Development

  This is an urban planning assessment, research, and dissemination project focused on the urban recipients of EDA 302(a) planning grants. The research papers produced in the first phase of this program include: "Comprehensive Urban Development Planning"; "The Role of Local Leaders"; and "Citywide Targeting Strategies."

- The East Los Angeles Community Union (TELACU) Handbook for Community Economic Development

  This handbook focuses on building the capacity of community-based economic development organizations to participate in and implement economic solutions which directly impact their neighborhoods. Additionally, the handbook attempts to strengthen the institutional capacity of State and local governments to understand the role of community-based economic development as a part of a citywide economic development strategy which addresses urban decay. By maximizing and leveraging the resources of community residents with those of local government, lasting partnerships can be created with the private sector to address the needs of the cities.

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STATEMENT OF WALTER D'ALESSIO
EXECUTIVE VICE PRESIDENT
PHILADELPHIA INDUSTRIAL DEVELOPMENT CORP.
PRESIDENT
NATIONAL COUNCIL FOR URBAN ECONOMIC DEVELOPMENT

BEFORE THE SENATE SUBCOMMITTEE ON REGIONAL & COMMUNITY DEVELOPMENT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

IT IS MY PLEASURE TO BE HERE TODAY TO TALK ABOUT NEW FEDERAL INITIATIVES IN THE AREA OF URBAN ECONOMIC DEVELOPMENT. AS MOST OF YOU KNOW, THE NATIONAL COUNCIL FOR URBAN ECONOMIC DEVELOPMENT REPRESENTS OVER ONE THOUSAND LOCAL OFFICIALS WHO PLAN AND IMPLEMENT ECONOMIC DEVELOPMENT ACTIVITIES IN OVER FOUR HUNDRED CITIES AROUND THE COUNTRY. THE INTEREST OF THIS COMMITTEE AND THE ADMINISTRATION IN EXPANDING FEDERAL EFFORTS TO STIMULATE PRIVATE INVESTMENT IN URBAN AREAS, COMES AS GOOD NEWS TO OUR MEMBERS.

LONG AGO, WE LEARNED THAT PUBLIC DOLLARS ALONE, WHETHER THEY BE LOCAL, STATE OR FEDERAL COULD NOT SAVE THE CITIES. THUS, THE LOCAL PUBLIC SECTOR HAS STRIVED TO FORCE A PARTNERSHIP WITH THE PRIVATE SECTOR TO BOLSTER SAGGING ECONOMIC BASES. CRUCIAL TO THE FEDERAL EFFORTS TOWARD STIMULATING JOBS AND TAXABLE ECONOMIC ACTIVITY IN CITIES, HAVE BEEN THE ACTIVITIES OF THE ECONOMIC DEVELOPMENT ADMINISTRATION. THE CONTINUANCE AND EXPANSION OF THE AGENCY IS VITAL TO OUR LOCAL PROGRAMS.

IT IS DIFFICULT NOW, TO SPEAK ON THE REAUTHORIZATION OF EDA, WITHOUT ACKNOWLEDGING THE MAJOR CHANGES CONTEMPLATED BY THE ADMINISTRATION IN THE WAKE OF ITS REORGANIZATION ANNOUNCEMENT. THE DECISION TO PROVIDE THE AGENCY WITH MAJOR BUSINESS DEVELOPMENT FINANCE TOOLS WAS AN APPROPRIATE ONE, AND COULD HAVE SIGNIFICANT IMPACT ON URBAN ECONOMIC DEVELOPMENT IN THIS COUNTRY. THE GROUND BROKEN BY EDA IN THE AREA OF BUSINESS DEVELOPMENT ASSISTANCE HAS ALLOWED NUMEROUS LOCALITIES TO CONSTRUCT AND NURTURE THE FRAGILE

46-633 O - 79 -- 9

PUBLIC/PRIVATE PARTNERSHIP WE SPEAK OF SO OFTEN. FURTHERMORE, THE AGENCY'S EXPERIENCED PERSONNEL AND FINE TRACK RECORD HAVE ESTABLISHED A CREDIBILITY WITH THE PRIVATE SECTOR THAT WILL ADD TO THE POTENTIAL EFFECTIVENESS OF THE NEW PROGRAMS. ALLOW ME TO SPEAK FOR A FEW MOMENTS NOW, ABOUT THE PREFERRED OBJECTIVES OF THOSE NEW PROGRAMS.

ON THE BASIS OF ITS EXPERIENCE IN OVER 400 CITIES, CUED HAS LONG EMPHASIZED THE IMPORTANCE OF SMALL AND MEDIUM-SIZED BUSINESSES TO URBAN ECONOMIES. THESE FIRMS-WHICH ONE MIGHT COLLECTIVELY CALL "MODERATE" IN SIZE-HAVE PLAYED AND WILL CONTINUE TO PLAY A SPECIAL ROLE IN URBAN DEVELOPMENT. I SPEAK NOW, NOT JUST OF THE TRADITIONALLY RECIPROCAL RELATIONSHIP BETWEEN SMALL BUSINESS AND THE CITY, WHERE CITIES SERVED AS THE INCUBATORS OF SUCH FIRMS AND THEY IN TURN HELPED PUMP LIFE INTO THE CENTRAL CITY. I REFER RATHER TO THE TREMENDOUS POTENTIAL FOR JOB AND ECONOMIC GROWTH THAT MODERATE SIZED FIRMS HOLD FOR CITIES, ESPECIALLY SINCE THESE FIRMS TEND TO BE LABOR INTENSIVE AND ARE THE MOST LIKELY TO REMAIN AND EXPAND IN CITIES.

RECENT STUDIES HAVE ATTEMPTED TO DOCUMENT THE REMARKABLE GROWTH POTENTIAL OF MODERATE SIZED FIRMS: LET ME CITE JUST A COUPLE OF EXAMPLES. A 1976 STUDY BY THE DEVELOPMENT FUND AT MIT SHOWED FIVE MODERATE-SIZED COMPANIES HAD CREATED MORE JOBS OVER A FIVE YEAR PERIOD THAN SIX CONSIDERABLY LARGER FIRMS OVER THE SAME PERIOD. FURTHERMORE, IN A RECENT TEN CITY STUDY THAT COVERED OVER ONE THOUSAND BUSINESS ESTABLISHMENTS, THE JOINT ECONOMIC COMMITTEE FOUND THAT MODERATE-SIZED, RATHER THAN LARGER FIRMS WERE MOST LIKELY TO PROJECT INCREASES IN EMPLOYMENT.

UNFORTUNATELY, DESPITE THEIR GREATER POTENTIAL FOR EXPANDING JOBS AND INVESTMENT, SMALLER FIRMS, ESPECIALLY IN CITIES, HAVE

TROUBLE EXPANDING AND OFTEN, EVEN IN HOLDING THEIR OWN. ONE OF THE GREAT PROBLEMS IS ACCESS TO CAPITAL. THE SMALL TO MODERATE SIZED FIRM WILL HAVE THE GREATEST DIFFICULTY OBTAINING FINANCING FOR START-UP, ONGOING OPERATIONS AND EXPANSION. PRIVATE LENDERS MAY TEND TO SHY AWAY FROM SMALLER FIRMS, IN URBAN AREAS, SINCE THEY FREQUENTLY PRESENT A RELATIVELY HIGH-RISK AND LOW-PROFIT PICTURE. THIS OFTEN MAKES LITTLE DIFFERENCE, SINCE THE COST OF PRIVATE DEBT FINANCING MAY BE VIRTUALLY PROHIBITIVE FOR MANY SMALLER FIRMS. SMALLER FIRMS LIKEWISE FIND THEMSELVES AT A DISADVANTAGE IN OBTAINING EQUITY CAPITAL DUE TO HIGH COSTS AND A DIMINISHING MARKET. THIS PLACES SMALL FIRMS IN AN ESPECIALLY DIFFICULT POSITION, SINCE THEY ARE EVEN MORE DEPENDENT THAN LARGER COMPANIES ON EXTERNALLY (AS OPPOSED TO INTERNALLY) GENERATED FUNDS FOR THEIR CAPITAL. WE BELIEVE THAT THE HIGH COST OF CAPITAL, AND THE DIFFICULTY IN SECURING FINANCING, IN EFFECT PUT A LID ON THE GROWTH AND EXPANSION OF MODERATELY-SIZED FIRMS IN CITIES.

THE IRONY HERE, IS THAT SMALLER FIRMS MAKE UP THE BULK OF THE AMERICAN BUSINESS COMMUNITY. BY MOST COUNTS, WELL OVER 90% OF ALL FIRMS CAN BE CATEGORIZED AS MODERATE IN SIZE. YET, DUE TO HIGH COSTS AND FINANCING DIFFICULTIES, SMALLER FIRMS ARE FINDING IT HARDER AND HARDER TO DO BUSINESS IN URBAN AREAS. THE RESULT HAS BEEN THAT THESE FIRMS ARE BEING BOUGHT OUT BY LARGER COMPANIES THAT OFTEN TAKE THEM OUT OF THE CENTRAL CITIES. RECENT STATISTICS ON BUSINESS MERGERS INDICATE THAT 73 PERCENT OF ALL THE FIRMS ABSORBED HAD LESS THAN ONE MILLION DOLLARS IN ASSETS.

UNFORTUNATELY, THE FEDERAL GOVERNMENT MAY HAVE COMPOUNDED THE PROBLEM. I DO NOT NEED TO REMIND YOU OF THE HIGH COST OF GOVERNMENT REGULATION. SUFFICE IT TO SAY THAT BUSINESS REGULATIONS, OFTEN AIMED AT LARGE CORPORATIONS, ARE ESPECIALLY COSTLY FOR SMALL FIRMS.

IT OCCURS TO US, THEREFORE, THAT ASSISTANCE TO SMALLER FIRMS IS A FORM OF FEDERAL ACTIVITY THAT WOULD HELP REGENERATE URBAN AREAS. SUCH AID MUST AND SHOULD BE MADE AVAILABLE, ESPECIALLY FOR WORKING CAPITAL, WHICH IS CRUCIAL TO THE OPERATION AND EXPANSION OF THE FIRMS WE SPEAK OF. THIS LEADS ME TO THE ADMINISTRATION'S PROPOSALS.

CUED BELIEVES THAT THE FINANCIAL MECHANISM BEING CONSIDERED MUST ADDRESS ITSELF TO TWO ISSUES. ONE, THE PROVISION OF LOCATIONAL INCENTIVES THROUGH REDUCED CAPITAL COSTS, HAS ALREADY RECEIVED A GREAT DEAL OF ATTENTION. THE ADMINISTRATION'S INTENTION TO SUBSIDIZE FIXED ASSET CAPITAL IN ORDER TO OFFSET OTHER COSTS AND ENCOURAGE URBAN INVESTMENT IS LAUDABLE. NEVERTHELESS, IT IS VITAL THAT FEDERAL AID BE GEARED TOWARD A SECOND OBJECTIVE AS WELL: CREDIT AVAILABILITY. I HAVE RECOUNTED OUR FRUSTRATION AT FINDING THAT THOSE BUSINESSES MOST LIKELY TO BOLSTER URBAN JOBS AND INVESTMENT HAVE TROUBLE FINDING THE CAPITAL TO DO SO. HERE LIES A GOLDEN OPPORTUNITY FOR FEDERAL ASSISTANCE. IN ALL LIKELIHOOD, CITIES WILL ACCRUE THE MOST BENEFITS, AND FEDERAL DOLLARS WILL BE MOST EFFECTIVE IF DEVELOPMENT ASSISTANCE IS GEARED TOWARD HELPING MODERATE-SIZED FIRMS OBTAIN CAPITAL AT RATES THEY CAN AFFORD. AND THIS MUST INCLUDE WORKING CAPITAL, SINCE AS I MENTIONED IT IS ESSENTIAL TO THE OPERATION AND EXPANSION OF SUCH FIRMS.

THUS, CUED WOULD ARGUE, THAT THE EXPANDED FEDERAL BUSINESS DEVELOPMENT PROGRAM SHOULD APPROACH URBAN REVITALIZATION FROM TWO PERSPECTIVES: PROVISION OF LOCATIONAL INCENTIVES AND INCREASING CREDIT AVAILABILITY AT AFFORDABLE RATES. BOTH CAN BE DONE BY SUBSIDIZING CAPITAL COSTS TO BUSINESS, SPECIFICALLY FIXED ASSET AND WORKING CAPITAL. THE FEDERAL MECHANISM SHOULD BE ABLE TO ACHIEVE BOTH. BOTH OBJECTIVES COULD BE EFFECTIVELY PURSUED THROUGH THE USE OF DIRECT LOANS, LOAN GUARANTEES, INTEREST SUBSIDIES AND SECONDARY MARKETING.

WE BELIEVE THAT EDA CAN ADMINISTER SUCH A PROGRAM. THE AGENCY, THROUGH ITS EXPERIENCE HAS ACQUIRED AN UNDERSTANDING OF DEVELOPMENT FINANCING THAT MAKES IT AN EFFECTIVE PARTNER IN PACKAGING INVESTMENT PROJECTS. BUT IN ADDITION TO ITS SAVY, AND ABILITY TO FACILITATE INDIVIDUAL DEALS, EDA HAS A COMPLETE ARRAY OF TOOLS AND THE CAPABILITY TO ASSIST WITH THE OVERALL DEVELOPMENT PROCESS. CUED HAS CONSISTENTLY MAINTAINED THAT ECONOMIC DEVELOPMENT AID MUST BE COMPREHENSIVE AND FLEXIBLE. IN THIS REGARD, WE HAVE FOLLOWED WITH APPRECIATION THE EVOLUTION OF TITLE IX INTO A PROGRAM THAT OFFERS FLEXIBLE, MULTI-PURPOSE GRANTS TO CITIES, AND HOPE THAT THIS TYPE OF GRANT ACTIVITY WOULD CONTINUE.

FOR SOME TIME, WE HAVE EXPRESSED INTEREST IN A PROGRAM THAT WOULD CAPITALIZE REVOLVING LOAN FUNDS FOR BUSINESSES AT THE LOCAL LEVEL. WHAT STARTED AS AN OUTGROWTH OF TITLE IX AND LATER BECAME THE SECTION 204 PROGRAM, HELD GREAT PROMISE FOR LOCAL OFFICIALS, EAGER FOR RESOURCES TO FOSTER BUSINESS DEVELOPMENT. THE REVOLVING LOAN FUND IS APPEALING BECAUSE IT MAXIMIZES LOCAL DISCRETION AND REPRESENTS A PREDICTABLE SOURCE OF FUNDING. THIS ENHANCES THE ABILITY OF OFFICIALS TO DEAL WITH THE PRIVATE SECTOR. FURTHERMORE, BY RECYCLING THE MONEY AS IT IS PAID BACK TO FINANCE NEW DEALS, INITIAL PUBLIC SECTOR INVESTMENTS STRETCH THEIR IMPACT BEYOND THE INITIAL PROJECT. WE HOPE THAT THE LOCAL REVOLVING FUND CONCEPT WILL RECEIVE EXPANDED ATTENTION IN THE FUTURE.

PERHAPS MOST IMPORTANT, IN THAT ALL I'VE TALKED ABOUT DEPENDS ON IT, THE CAPACITY-BUILDING PROGRAM. FUNDING MUST BE AVAILABLE TO GUARANTEE THAT LOCAL CAPABILITIES ARE SUFFICIENT TO UTILIZE THE LOAN AND GRANT PROGRAMS THAT ARE OFFERED. IT IS AN OLD AXIOM THAT PLANNING MUST PRECEDE IMPLEMENTATION. BUT THERE MUST BE SOMETHING THAT PRECEDES BOTH PLANNING AND IMPLEMENTATION. LOCALITIES MUST

HAVE AN ORGANIZATIONAL CAPACITY, WITH PERSONNEL AND EXPERTISE TO MAKE IT WORK. FURTHERMORE, LOCAL OFFICIALS MUST HAVE ACCESS TO GOOD INFORMATION CONCERNING DEVELOPMENT TECHNIQUES, AND THE KNOW-HOW AND MONEY TO TALK BUSINESS WITH THE PRIVATE SECTOR.

THERE CAN BE A TENDENCY TO CONCENTRATE FEDERAL AID ON PROJECT IMPLEMENTATION BECAUSE THAT IS THE VISIBLE END OF ECONOMIC DEVELOPMENT. BUT WITHOUT THE LOCAL CAPACITY TO FORMULATE STRATEGIES AND ADMINISTER PROJECTS, FEDERAL AID WILL NEVER BE AS EFFECTIVE AS IT COULD BE. THE IMPORTANCE OF DEVELOPMENT CAPACITY IS UNDERSCORED BY THE INCREASING EMPHASIS IN FEDERAL PROGRAMS ON LOCAL PREPAREDNESS. LOCALITIES ARE ASKED TO IDENTIFY NEEDS, BE ABLE TO ASSEMBLE LAND, PUT TOGETHER FINANCIAL PACKAGES AND HAVE READY TO GO PROJECTS. THUS, FUNDS FOR TECHNICAL ASSISTANCE ARE NEEDED TO HELP GENERATE LOCAL DEVELOPMENT INSTITUTIONS, PREPARE PROJECTS, SUPPORT TRAINING ACTIVITIES AND PROVIDE FOR INFORMATION TRANSFER. WITHOUT TECHNICAL ASSISTANCE, LOCAL EFFORTS ARE BOUND TO BE FRUSTRATED, AND FEDERAL EFFORTS MAY WIND UP MISDIRECTED OR EVEN WASTED.

MONEY FOR GENERAL PLANNING IS ALSO ESSENTIAL. CITIES MUST BE INVOLVED WITH DEVELOPMENT AS A COMPREHENSIVE LONG-TERM EFFORT. ALTHOUGH THE INDIVIDUAL DEAL IS THE "MEAT AND POTATOES" OF ECONOMIC DEVELOPMENT, BUILDING UP THE ECONOMIC BASE OF THE CITY IS STILL THE PRIME OBJECTIVE. THIS REQUIRES MORE THAN A ONE SHOT DEAL APPROACH, AND EDA HAS IN THE PAST RECOGNIZED THE NEED FOR COMPREHENSIVE PLANNING AND MULTIFACETED PROJECT ASSISTANCE. EFFORTS TO STIMULATE COORDINATION AND FOCUSING OF RESOURCES AT THE LOCAL LEVEL SHOULD BE ENCOURAGED.

TO CUED, THIS IS A MAJOR TURNING POINT IN FEDERAL ASSISTANCE. IF THE FEDERAL GOVERNMENT IS READY TO MAKE URBAN ECONOMIC DEVELOPMENT A NATIONAL PRIORITY, THIS IS AN APPROPRIATE OPPORTUNITY. WE HAVE COME A LONG WAY FROM THE DAYS WHEN EDA HAD TO FIGHT FOR ITS VERY LIFE. NOW WE ARE PRESENTED WITH AN AGENCY THAT IS PREPARED TO . . .

ACCOMMODATE THE FULL RANGE OF CITY DEVELOPMENT TOOLS AND ALSO DEAL WITH RELATED ISSUES SUCH AS INVOLVING STATES IN LOCAL ECONOMIC DEVELOPMENT AND INTEGRATING THE EFFORTS OF NEIGHBORHOOD ORGANIZATIONS INTO CITYWIDE EFFORTS.

IN ADDITION, EDA HAS PROVEN THAT IT CAN BE AN INNOVATIVE AGENCY. EXPERIMENTS IN THE AREAS OF REVOLVING LOAN FUNDS AND EMPLOYEE STOCK OWNERSHIP PLANS HAVE ADDED VALUABLE TOOLS TO OUR DEVELOPMENT ARSENAL. WE EXPECT THAT THIS SORT OF ACTIVITY WOULD CONTINUE. ONE APPROACH THAT MERITS FURTHER INVESTIGATION IS INDIRECT ASSISTANCE WITH EQUITY (AS OPPOSED TO DEBT) FINANCING - OFTEN THE HARDEST FOR URBAN FIRMS TO OBTAIN. ONE TECHNIQUE INVOLVES EDA IN CAPITALIZING STATE AND LOCAL AUTHORITIES, WHICH IN TURN WOULD SHOULDER THE RISKS INVOLVED IN EQUITY CAPITAL PROVISION.

CONCLUSION

WE BELIVE THAT TIGHT BUDGETS AND FISCAL CONSERVATISM SHOULD NOT BE ALLOWED TO BLUNT ECONOMIC DEVELOPMENT EFFORTS. THIS APPROACH IS THE BEST MEANS OF CREATING JOBS, RESTORING URBAN TAX BASES AND ALLOWING CITIES TO CONTINUE AS PROVIDERS OF SERVICES TO THEIR RESIDENTS. FOR THOSE OF US WHO ARE COMMITTED TO THE PRINCIPLE OF PUBLIC/PRIVATE PARTNERSHIP, REAUTHORIZATION OF EDA IS ESSENTIAL. THE AGENCY NEEDS TO BE CONTINUED, AND NOT JUST FOR A YEAR. EDA SHOULD BE EQUIPPED WITH SUBSTANTIAL PROGRAMS FOR BUSINESS FINANCE ASSISTANCE, DEVELOPMENT GRANTS, REVOLVING LOAN FUNDS, CAPACITY BUILDING AID AND STATE AND NEIGHBORHOOD PROGRAMS. IF HELPING THE CITIES IS TO CONTINUE AS A MAJOR NATIONAL PRIORITY, ECONOMIC DEVELOPMENT SHOULD BE A PRIME COMPONENT OF THE EFFORT. CONGRESS AND THE ADMINISTRATION SHOULD NOT SHY AWAY FROM AUTHORIZING SUBSTANTIAL PROGRAMS THAT PROMOTE URBAN ECONOMIC DEVELOPMENT.

NOW IS AN OPPORTUNE TIME TO MAKE A CLEAR STATEMENT ON THE IMPORTANCE OF URBAN ECONOMIC DEVELOPMENT BY EXPANDING THE TOOLS AVAILABLE THROUGH EDA. IN ADDITION TO CONTINUING THE AGENCY'S TRADITIONAL PROGRAMS, THE WHITE HOUSE PROPOSAL TO ADD A SUBSTANTIAL NEW DEVELOPMENT FINANCING PROGRAM, WOULD BE MOST BENEFICIAL. THIS GOES RIGHT TO THE HEART OF WHAT IS NEEDED TO PROMOTE BUSINESS RETENTION AND EXPANSION IN THE CITIES. THE $450 MILLION REQUEST FOR DIRECT LOANS AND INTEREST SUBSIDIES, AND THE AUTHORITY REQUESTED FOR LOAN GUARANTEES (WHICH COULD LEVERAGE OVER $1 BILLION IN PRIVATE MONEY) CAN GREATLY ENHANCE EDA'S ABILITY TO REDUCE FIXED ASSET AND WORKING CAPITAL COSTS FOR URBAN AREAS.

THE NEW PROPOSAL ALSO COVERS THE EXPANSION OF DEVELOPMENT GRANT AUTHORITY, WHICH IS A KEY LINK IN FEDERAL ASSISTANCE EFFORTS. SUCH FLEXIBLE GRANTS MAKE IT POSSIBLE TO APPLY A FULL RANGE OF INCENTIVES TO FIRMS THAT MAY LOCATE OR EXPAND IN URBAN AREAS. IT IS SIGNIFICANT THAT EDA ALSO SEEKS TO INITIATE A $25 MILLION PROGRAM OF TECHNICAL AID TO BUSINESSES. THIS CAN HAVE TREMENDOUS RAMIFICATIONS, ESPECIALLY FOR THE VITAL SMALLER FIRMS, DISCUSSED EARLIER.

THERE ARE A NUMBER OF AREAS THAT CUED FEELS MOST STRONGLY ABOUT, CONCERNING THE EDA PROGRAM. THE BUSINESS DEVELOPMENT TOOLS ARE, OF COURSE, A CENTRAL ISSUE, AND WE FEEL THAT EDA IS THE APPROPRIATE AGENCY TO ADMINISTER THEM. IT IS ALSO IMPORTANT, HOWEVER, THAT THE TITLE IX CONCEPT, REVOLVING LOAN FUNDS, THE OFFICE OF SPECIAL PROJECTS AND STATE DEVELOPMENT ASSISTANCE BE CONTINUED, AND THAT TECHNICAL ASSISTANCE TO LOCALITIES BE EXPANDED. WE URGE THE COMMITTEE TO GIVE EDA THE MANDATE IT NEEDS TO FULLY ADDRESS THE DEVELOPMENT NEEDS OF COMMUNITIES ACROSS THE COUNTRY.

96TH CONGRESS
1ST SESSION

S. 914

To provide public works, business financing, and other development assistance to alleviate economic distress.

IN THE SENATE OF THE UNITED STATES

APRIL 5 (legislative day, FEBRUARY 22), 1979

Mr. BURDICK (for himself and Mr. RANDOLPH) (by request) introduced the following bill; which was read twice and referred jointly, by unanimous consent, to the Committees on Banking, Housing, and Urban Affairs and Environment and Public Works with instructions that Titles I and II of the bill to be considered by the Committee on Environment and Public Works, Title III to be considered by the Committee on Banking, Housing, and Urban Affairs, and all other portions of the bill to be jointly considered by the two committees

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A BILL

To provide public works, business financing, and other development assistance to alleviate economic distress.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "National Public Works and Economic Development Act of 1979".

FINDINGS AND PURPOSE

SEC. 2. (a) The Congress of the United States finds that:

(1) Historical and structural economic patterns in the national and world markets have resulted in disparate economic conditions among various areas and communities in the Nation.

(2) Some areas and communities suffer from substantial and persistent unemployment and underemployment; others have incipient problems that may result in future economic distress.

(3) Economic distress caused by structural problems, severe dislocations, or cyclical downturns adversely affects communities and areas and their residents, industry sectors, and groups within the population. Among the most severely affected in distressed areas are socially and economically disadvantaged individuals from groups which suffer the effects of past and present discriminatory practices.

(4) The proliferation of Federal economic development planning requirements places unnecessary burdens on State and local governments and organizations of such governments and hinders efforts to formulate and implement comprehensive economic development strategies.

(5) It is in the national interest to develop a partnership between the public and private sectors to plan and implement

development and adjustment activities to alleviate such distress.

(6) Delivering and coordinating Federal assistance to economically distressed areas, and industries and groups within those areas, is crucial to the health of the national economy and the well-being of the Nation's citizens.

(b) The Congress therefore declares that the purpose of the National Public Works and Economic Development Act of 1979 is to promote balanced national growth and economic development by—

(1) providing Federal aid to urban and rural distressed areas in planning and financing public works, business assistance, and other development activities to foster additional long-term employment opportunities for the unemployed and underemployed, and benefit socially and economically disadvantaged individuals, through the stimulation of private investment through Federal aid, including—

(i) economic development planning grants to create institutional capacity for carrying out coordinated planning and development activities at State and substate levels;

(ii) public works and other public sector grants to finance infrastructure development and

other economic development and adjustment projects;

(iii) loans, guarantees, and other incentives to encourage and enable businesses to remain, locate, or expand in areas experiencing or threatened with high unemployment, either chronic or short-term, and low income; and

(iv) technical assistance, research, and demonstration funds to support studies and other activities related to economic development, the improvement of economic sectors, and adjustment needs;

(2) establishing the framework needed to coordinate Federal economic development and adjustment assistance programs and to link public and private development efforts, including those of Federal, State, and local governments and organizations formed by such governments;

(3) simplifying and coordinating economic development planning requirements; and

(4) promoting State economic development and adjustment programs through providing grants to enable States to finance development and adjustment projects.

DEFINITIONS

SEC. 3. As used in this Act, the term—

(a) "area" means any political jurisdiction or group of political jurisdictions, or any community or neighborhood defined without regard to political or other type of boundary, that meets criteria established by the Secretary;

(b) "balance of central county area" means the area of the central county of a metropolitan area excluding that county's central city and the other separately qualified areas within the county;

(c) "bonus grant" means a public works grant under the authority of section 205 of this Act which may not exceed 10 per centum of the costs of a project located in a redevelopment area or pocket of distress when such area is an active participant in an economic development district;

(d) "business owned and controlled by socially and economically disadvantaged individuals" means a business—

(1) which is at least 50 per centum owned by one or more socially and economically disadvantaged individuals; and

(2) whose management and daily business operations are substantially controlled by one or

more socially and economically disadvantaged individuals.

Socially and economically disadvantaged individuals include Black Americans, Hispanic Americans, Native Americans, and other minorities or any other individual found to be disadvantaged by the Small Business Administration pursuant to section 8 of the Small Business Act, as amended (15 U.S.C. 637);

(e) "economic adjustment area" means an area experiencing or threatened with a severe economic adjustment problem designated by the Secretary under the criteria of section 4(b) of this Act;

(f) "economic adjustment plan" means a document that discusses the nature, causes, magnitude, and impacts of an economic dislocation; the adjustment needs arising from a dislocation; the proposed actions for responding to the adjustment needs, including the immediate reemployment or other needs of the dislocated workers; and the method of carrying out an adjustment program;

(g) "economic development center" means an economically healthy area in an economic development district designated by the Secretary under the criteria of section 4(c)(2) of this Act;

(h) "economic development district" means an area which is represented by more than one unit of government and is designated by the Secretary under the criteria of section 4(c)(1) of this Act;

(i) "group average national per capita income" when used to limit eligibility under section 4(a)(3) of this Act means the separately computed national per capita incomes for standard metropolitan statistical areas and for areas outside standard metropolitan statistical areas;

(j) "impact assessment" means a document that identifies the magnitude and specific impacts of an economic adjustment problem;

(k) "Indian tribe" means the governing body of a tribe, an Indian authority, or tribal organization or entity, an Alaskan Native Village, or any Indian group which is recognized as an Indian tribe by the Secretary of the Interior;

(l) "pocket of distress" means an area designated by the Secretary under the criteria of section 4(a)(2) of this Act;

(m) "public works impact project" means a public works project which may be approved under section 203(c) of this Act because the project would provide

short-term useful work for the disadvantaged, long-term unemployed;

(n) "overall economic development program" means a document that describes—

(1) the organizational structure, operating procedures, and proposed planning and coordinative activities necessary to support an ongoing economic development effort, and

(2) a multiyear economic development strategy that is based on an analysis of economic problems and potentials and lays out development goals and the public and private actions and investments needed to achieve them;

(o) "redevelopment area" means an economically distressed area designated by the Secretary under the criteria of section 4(a)(1) of this Act;

(p) "revolving loan fund" means a State or locally administered fund used to make loans and loan guarantees to finance activities that will create or maintain jobs in economically distressed areas. All repayments and collections shall be redeposited into the fund for reuse for similar purposes;

(q) "Secretary" means the Secretary of Commerce;

(r) "severe economic adjustment problem" means the sudden and permanent loss of a significant number of jobs resulting from direct actions of the Federal Government; import competition; a disaster that permanently destroys a significant part of the employment base and for which other recovery assistance is unavailable; or other reasons;

(s) "State" means the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands; and

(t) "underemployed, disadvantaged, and long-term unemployed" shall be defined in regulations by the Secretary of Commerce in consultation with the Secretary of Labor to assure consistency among Federal programs.

DESIGNATION OF AREAS

SEC. 4. Area designation will carry out the mission of encouraging balanced national growth and development by responding to the varying economic development needs of the Nation.

(a) Upon the application of any area which meets criteria established by the Secretary by regulation and which has an overall economic development program approved by the Secretary or which is located in an economic development

46-633 O - 79 -- 10

district with such a program, the Secretary is authorized to designate:

Redevelopment Areas

(1) A developed area suffering chronic economic distress, an area with persistent underdevelopment, or an area exhibiting incipient decline or short-term economic distress as a redevelopment area. Such area shall be eligible for all forms of assistance authorized by titles I, II, III, and IV of this Act. In order to be designated, an area must meet one of the following criteria:

(i) have a per capita income of 80 per centum or less of the national per capita income rate as determined by statistics from the Department of Commerce;

(ii) for the most recent five-calendar-year period for which statistics are available from the Department of Labor, suffer an average unemployment rate above the national average unemployment rate;

(iii) for the most recent twenty-four-month period for which statistics are available from the Department of Labor, suffer an average unemployment rate at least 1 per centum above the national average unemployment rate, and suffer an average unemployment rate for the same twenty-four-month period of at least 7½ per centum; or

(iv) net employment loss for the most recent five-year period for which statistics are available from the Secretary of Labor.

(v) the percentage of population living in poverty exceeds 16½ per centum of the area's population for the most recent year for which statistics are available.

(vi) in the case of a local government which encompasses, or is within, a standard metropolitan statistical area or central city for which current population surveys were used to determine annual unemployment rates before January 1, 1978, the Secretary of Labor, for the purposes of clauses (ii) and (iii) of this subsection, shall determine or assign the unemployment rates for such government calculated by the current population survey methodology, if such rates are higher than rates determined or assigned by the Secretary of Labor for that government for the appropriate six-month periods without applying the current population survey methodology. This methodology shall not be used until such time as the Secretary of Labor determines that current population survey data is available for use on a satisfactory basis for such areas and the remaining area of each State.

Pocket of Distress

(2)(i) An area as a pocket of distress if such area has severe economic distress as indicated by a high proportion of population in poverty or by the criteria of paragraph (1) (i), (ii), (iii), or (iv) of this subsection but the appropriate Department of Labor or Department of Commerce statistics are not available or, in areas of extreme need, such area does not otherwise meet the definition of area established by the Secretary by regulation. An area requesting designation as a pocket of distress shall submit the statistical information on which it relies for qualification to the Secretary: *Provided however,* That the designation of an area which is defined without regard to political boundaries shall be requested by the chief executive officer or the officer's designee of the political subdivision(s) within which it is contained. The Secretary shall evaluate the accuracy and reliability of such statistics and shall determine if such statistics qualify the area for designation. A pocket of distress is eligible for all forms of assistance under titles I, II, III, and IV of the Act.

(ii) Notwithstanding any other provision of this Act, the Secretary shall have the authority to waive or modify the overall economic development program requirement for pockets of distress in circumstances where the capacity of the area and the nature of the assistance sought make the requirement inappropriate.

(3)(i) Any area which has a per capita income in excess of 125 per centum of its group average national per capita income is not eligible for designation under the criteria of clause (ii), (iii), or (iv) of paragraph (1) and under paragraph (2).

(ii) A project may not be located in any community which is in a designated area and which has a per capita income in excess of 125 per centum of its group average national per capita income, except where the area's overall economic development program specifically sets forth the proposed project and the project will have substantial benefits to the unemployed and underemployed of the area.

(iii) The percentage of its group average national per capita income used to limit designations in clause (i) shall, for local governments in the States of Alaska and Hawaii, be increased by the average State percentage of basic pay which civilian employees of the United States Government receive as an allowance under section 5941 of title 5, United States Code. Such average State percentage shall be determined for the most recently completed calendar year for which data are available based on data provided by the Office of Personnel Management and reported to the Secretary.

(iv) Any area which has for the most recent five-year period for which statistics are available an employment growth rate exceeding 200 per centum of the national em-

ployment growth rate is not eligible for designation under the criteria of clause (ii), (iii), or (v) of paragraph (1) of under the criteria of paragraph (2), unless the area's average unemployment rate for that five-year period exceeds 175 per centum of the national average unemployment rate for that period.

(4) A project may not be located in a nonqualified balance of central county area in a redevelopment area unless the Secretary determines that such project shall provide substantial direct benefits to the population of the qualified areas within such counties.

(5) An area presently identified by the Community Services Administration as an urban or rural special impact area under the provisions of part A of title VII of the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2981). Such an area shall be eligible for all forms of assistance authorized by titles I, II, III, and IV of this Act.

(6) An area in which the majority of the families are living in poverty, as defined by the Community Services Administration guidelines (45 CFR 1060.2, attachment A). Such an area shall be eligible for all forms of assistance authorized by titles I, II, III, and IV of this Act.

(7) The Secretary shall terminate or modify designations under the authority of subsection (a) whenever such areas no longer satisfy the designation requirements of this subsection. A designation under this subsection may not be terminated

prior to the expiration of the third year after the date of the original designation. Areas designated under the authority of title IV of the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3161 et seq.) which are or remain designated in fiscal year 1979 shall be eligible to receive assistance under titles I, II, and IV of this Act for fiscal years 1980 and 1981.

Economic Adjustment Areas

(b)(1) Upon the application of an area, the Secretary is authorized to designate such an area as an economic adjustment area eligible for assistance authorized by titles I, II, III, and IV of this Act if—

(i) the Secretary determines that the area has recently suffered, or is threatened with, a severe economic adjustment problem; and

(ii) the Secretary approves the area's economic adjustment plan.

(2) A designation under this subsection shall expire in three years unless the Secretary approves an application for continued designation.

(3) The Secretary shall terminate or modify such designations whenever such areas no longer satisfy the designation requirements of this subsection.

(c) Upon an area's application, the Secretary is authorized to designate, with the concurrence of the appropriate State or States, as:

Economic Development Districts

(1) An economic development district, any area (which may include portions of more than one State) which meets all the following requirements:

(i) is smaller than a State, and is of sufficient size or population and contains sufficient resources to foster economic development on a scale involving more than a single redevelopment area;

(ii) includes one or more areas designated under subsection (a)(1) of this section, whose economy(ies) is (are) closely related to other areas of the district; and

(iii) has an overall economic development program approved by the Secretary which the Secretary determines will substantially contribute to the economic development of the entire district, including any area designated under subsection (a).

Economic Development Centers

(2) An economic development center eligible for assistance authorized by titles I, II, III, and IV, of this Act, an area within an economic development district which has been identified in the district's overall economic development program and which the Secretary determines to be a center of

district economic activity and which provides or can provide substantial employment or other economic benefits to areas designated under subsection (a) of this section. No project shall be funded in an economic development center unless the applicant demonstrates that the project will provide benefits to such area designated under subsection (a) of this section.

(3) In designating economic development districts and approving district overall economic development programs, the Secretary is authorized by regulation—

(i) to invite the several States to draw up proposed district boundaries consistent with existing substate boundaries, where possible;

(ii) to cooperate with the several States—

(A) in sponsoring and assisting district economic planning and development groups, and

(B) in assisting such district groups to formulate district overall economic development programs;

(iii) to provide for participation in district activities by all important elements of the district economy, including appropriate local governmental authorities, the private sector, minorities, and representatives of the economically disadvantaged population; and

(iv) to promote to the extent feasible the participation by members of the private industry councils au-

thorized by the Comprehensive Employment and Training Act of 1978 (29 U.S.C. 801) as private sector representatives in district activities.

(4) The Secretary shall terminate or modify such designations whenever such areas no longer satisfy the designation requirements of this subsection.

(d) No designated area, including an economic development district, shall retain its designation unless it maintains a currently approved overall economic development program or economic adjustment plan, as appropriate.

(e) In making designations under this section the Secretary shall use the most recent available Federal, State, or local statistics which the Secretary determines are suitable for the purpose.

(f) The size and boundaries of areas eligible for designation under this section shall be as determined by the Secretary.

TITLE I—ECONOMIC DEVELOPMENT AND ADJUSTMENT PLANNING ASSISTANCE AND TECHNICAL ASSISTANCE

SEC. 100. The purpose of this title is to provide assistance to develop public capacities at the State, economic development district, and other substate regional, and local levels, and where appropriate, to develop capacities of the private sector to undertake economic development planning

and implementation programs that provide for the coordination of Federal, State, local, and private development actions and investments needed to: ensure the maintenance of healthy economies; aid the rehabilitation of long-term distressed economies and the growth of underdeveloped economies; and respond to severe economic adjustment problems.

SEC. 101. (a) The Secretary is authorized to extend the following types of assistance:

(1) General capacity building assistance for—

(i) States under section 102(a);

(ii) substate planning and development organizations, including economic development districts under section 102(b);

(iii) local areas under section 102(c); and

(iv) Indian tribes under section 102(d).

(2) Adjustment planning assistance under section 102(e).

(3) Technical assistance under section 103.

(b) Appropriate programs and activities supported under section 102 (a) through (d)—

(1) shall be directed toward increasing long-term permanent employment in private sector enterprises, increasing incomes, developing stable private sector oriented economies and strengthening State and local tax bases;

(2) shall be a continuous process involving public officials and private citizens (including representatives of the business community, the unemployed and underemployed, and the socially and economically disadvantaged individuals) in analyzing local economies, defining development goals and objectives, identifying and assessing options and strategies, and formulating and implementing development programs;

(3) shall be part of an ongoing comprehensive planning process that relates economic development, physical development, human resource development, and natural resource development goals, policies, strategies, and programs and is integrated with the State or local budgetary and programing system;

(4) shall produce comprehensive strategies: for use as a guide to public decisionmaking; for public understanding of development goals and programs; and that provide the basis for the coordination of Federal, State, and local actions and investments and for achieving the desired levels and types of private sector investment;

(5) shall be part of an ongoing intergovernmental process designed to address problems that transcend jurisdictional boundaries and maximize consistency among Federal, multistate regional, State, economic

development district, substate regional, and local actions and investments; and

(6) shall identify the needs for special studies and subarea planning to support strategy implementation and economic adjustment assistance.

(c) Continued assistance under section 102 shall be predicated upon: the design of a development program appropriate to individual State and local economies and institutional settings within the objectives described in section 101(b); the accomplishment of tasks contained in the development program; and, the implementation of actions and investments consistent with strategies resulting from the program.

SEC. 102. (a) The Secretary is authorized to make grants to States for the establishment and maintenance of an economic development planning program. The program shall be conducted by the Governor as a part of the State's comprehensive planning process in order to provide policy recommendations and technical support to the planning and budgeting process, consistent with the economic development goals of the State. The State shall provide mechanisms for economic development district and other substate regional and local participation in the State economic development program and shall provide assistance to economic development district and other substate regional and local economic development programs in the provision of data and technical information, pro-

gram coordination, and staff development. The State program shall work in partnership with multistate regional, economic development district and other substate regional, and local economic development programs to provide a framework for the allocation of Federal and State resources relating to economic development.

(b) The Secretary is authorized to make grants to substate regional planning and development organizations including those which cross State boundaries for the establishment and maintenance of economic development programs. Such programs in metropolitan and nonmetropolitan areas shall focus on the formulation of economic development strategies which target Federal and State investments to areas of distress or impending growth, where appropriate. The economic development planning program shall be conducted by the governing board of such organization and shall contribute technical support and policy recommendations in all aspects of the comprehensive planning process. The planning process shall involve local, private, and public interests, including representatives of the business community, the unemployed and underemployed, and socially and economically disadvantaged individuals, and shall provide recommendations to the State economic development program. Such assistance shall support—

(1) the administrative and program costs of the economic development programs of economic development districts, and

(2) the planning program costs of economic development strategies formulated by substate planning and development organizations which are not economic development districts.

(c) The Secretary is authorized to make grants to general purpose units of local government for the establishment and maintenance of an economic development planning program. The economic development planning program shall be conducted by the chief elected official as a part of a comprehensive planning process in order to provide policy recommendations and technical support to the planning and budgeting process, consistent with the economic development goals of the locality. The planning program shall provide for the participation of neighborhood development groups and private sector involvement in the planning process, shall address the local government's ability to implement program recommendations, and shall provide recommendations to the substate regional and State economic development programs.

(d) The Secretary is authorized to make grants to Indian tribes to plan and administer an economic development program. The Secretary shall prescribe regulations to ensure that the planning program supported under this subsection is

properly coordinated with planning programs supported on Indian reservations under other legislation.

(e) The Secretary is authorized to make grants to multistate organizations, States, Indian tribes, political subdivisions of States, economic development districts, and other substate planning and development organizations, and area or local private nonprofit organization which are representative of the area or locality to help defray reasonable costs associated with such organizations for adjustment planning, the preparation of an impact assessment or an economic adjustment plan, and administrative expenses incurred in connection with the overall area coordination and management of adjustment planning. Adjustment planning shall be coordinated with an area's or locality's comprehensive development strategy where such a strategy exists.

TECHNICAL ASSISTANCE

SEC. 103. (a) The Secretary is authorized to provide technical assistance to any eligible applicant as defined in subsection (d) of this section. Such assistance may include project planning and feasibility studies, management and operational assistance, management training, studies evaluating the need and potential for economic development and growth, industrial analyses and productivity studies relating to particular industries, and environmental impact analyses

and other studies required in connection with projects financed under this Act.

(b) Such assistance may be provided by the Secretary through members of the Secretary's staff, through the payment of funds authorized for this section to other departments or agencies of the Federal Government, through the employment of private individuals, partnerships, firms, corporations, or other suitable institutions, under contracts entered into for such purposes, or through grants.

(c) The Secretary may require the repayment of assistance provided under this section and prescribe the terms and conditions for such repayment.

(d) Eligible applicants for assistance under this section are multistate organizations, States, Indian tribes, political subdivisions of States, substate planning and development organizations, area or local private nonprofit organizations, individuals, partnerships, firms, corporations, or other appropriate entities.

SEC. 104. (a) Plans and strategies prepared with assistance under this title shall be submitted to the Secretary for approval. If approved by the Secretary, these plans and strategies shall fulfill the economic development planning requirements of this legislation. In addition, the Secretary shall work with other Federal departments and agencies to develop mutually acceptable plans that fulfill the planning re-

46-633 O - 79 -- 11

quirements of such Federal departments and agencies and this legislation.

(b) Such plans and strategies shall be in such form as may be used by State and local governments and be used by them as the foundation for economic development investment decisions in the areas covered by the plans and strategies.

SEC. 105. (a) In providing assistance under sections 102 (a) through (d) and 103, the Secretary shall give priority to applicants from areas designated under section 4(a) of this Act.

(b) The amount of any grant under this title may not exceed 80 per centum of the eligible costs, except that grants for Indian tribes and grants for environmental impact analyses may be for up to 100 per centum of eligible costs:

(1) The Secretary may waive the 20 per centum non-Federal share requirement in exceptional cases of need.

(2) In determining the non-Federal share, the Secretary shall consider contributions in cash and in exceptional cases of need, contributions in-kind.

SEC. 106. There are hereby authorized to be appropriated $90,780,000 for the fiscal year ending September 30, 1980: *Provided, however,* That not more than $37,280,000 may be expended for the purposes of section 102 of this title. For the fiscal years ending September 30, 1981, September

30, 1982, September 30, 1983, September 30, 1984, and September 30, 1985, there are authorized to be appropriated such funds as may be necessary to carry out the purposes of this title.

TITLE II—GRANTS FOR PUBLIC WORKS AND OTHER ECONOMIC DEVELOPMENT AND ADJUSTMENT

ASSISTANCE PURPOSES

SEC. 200. The purpose of this title is to promote economic development and adjustment through the use of grants to public entities or public or private nonprofit organizations to finance public works projects, revolving loan funds, and other activities to facilitate the creation or retention of private sector employment opportunities.

SEC. 201. The Secretary is authorized to make grants to eligible applicants for economic development and adjustment, public works, and other projects which are located in areas designated under section 4 (a), (b), or (c)(2) of this Act and which are consistent with an approved economic adjustment plan or overall economic development program, as appropriate.

SEC. 202. (a) An eligible applicant for a grant for the purposes of section 203 may be a State, a political subdivision of a State, an Indian tribe, or a private or public nonprofit organization or association representing an area, or

part of an area, designated under section 4 (a), (b), or (c)(2) of this Act.

(b) An eligible applicant for a bonus grant shall be located in an area designated under section 4(a) of this Act which participates in an economic development district.

SEC. 203. A grant may be made for the following purposes:

(a) The design (including engineering and related expenses) and an analysis of the environmental impacts of a public works, public service, or development facility which will promote long-term economic development or respond to economic dislocations.

(b) The acquisition and development of land, the demolition of structures on such land, displacement costs of renters, and the construction, alteration, rehabilitation, expansion, and improvement (including related machinery and equipment) of a public works, public service, or development facility which will promote long-term economic development or respond to economic dislocations.

(c) The renovation of existing facilities and the construction of new projects which will provide immediate useful work for the disadvantaged, long-term unemployed. Priority shall be given to public works impact projects that involve maintenance of basic facilities, energy conservation, or historic preservation.

(d) To finance revolving loan funds. These revolving loan funds shall be used according to plans approved by the Secretary to make direct loans and to guarantee loans made by other lenders to private firms, public bodies, and public and private nonprofit organizations to create or maintain jobs in the area represented by the grant applicant.

(1) Interest rates for direct and guaranteed revolving fund loans shall be consistent with rates charged under the grant recipient's existing authorities or may reduce the effective interest rate up to 7 percentage points per annum. In no event shall the interest rate payable on such direct or guaranteed loans be less than 3 per centum per annum.

(2) The collections on and repayments of loans and guarantees shall be deposited in the revolving loan fund. The revolving loan fund shall be used only for the purpose of making loans and loan guarantees in accordance with the plans approved by the Secretary which may include use of the fund to defray all or appropriate portions of the costs of administering the fund. If the Secretary determines that the fund can no longer be used in accordance with its original purpose, the remaining moneys shall be returned to the Treasury.

(e) The funding of projects and programs, except planning, as set forth in approved State strategies assisted under title I of this Act.

(f) To enable an eligible applicant under this Act to take maximum advantage of grant-in-aid programs authorized by other Federal statutes if—

(1) the recipient is eligible for assistance under such other program; and

(2) the recipient cannot supply the matching share of financing required by such program.

(g) To enable eligible applicants to pay 15 per centum of the cost of any private sector economic development or adjustment project which would not be undertaken in a designated area without such assistance.

SEC. 204. (a) Subject to the provisions of subsection (b) of this section the amount of a grant made for the purposes of section 203, except for subsection 203(g), shall not increase the Federal share of a project's funding above 80 per centum of the eligible costs of a project. The Secretary, by regulation, shall determine the grant rates for particular types of projects.

(b) A grant shall not increase the Federal share of a project's funding above 80 per centum of the project's costs, except as follows:

(1) a project sponsored by an Indian tribe may receive Federal funding of up to 100 per centum of its eligible costs;

(2) a project sponsored by a State or a political subdivision of a State which can demonstrate that its effective borrowing and taxing capacity is exhausted may receive Federal funding of up to 100 per centum of its eligible costs;

(3) a project sponsored by a public or private nonprofit organization or association which can demonstrate that its effective borrowing and funding capacity is exhausted and that there are no other feasible means for accomplishing the project, may receive Federal funding of up to 100 per centum of its eligible costs; and

(4) a project for the analysis of the environmental impacts of a public works, public service, or development facility under section 203(a) may receive up to 100 per centum of its eligible costs.

(c) The exceptions provided for in subsection (b) of this section may not be applied to grants for the purposes of section 203(d) of this title.

SEC. 205. (a) The Secretary is authorized to make bonus grants to projects located in areas designated under

section 4(a) of this Act which participate in designated economic development districts.

(b) A bonus grant may be in addition to a grant received under the authority of this title, subject to the 80 per centum limitation on the Federal share of a project's funding and to section 203(g) of this title.

(c) A bonus grant may be made for up to 10 per centum of a project's eligible costs.

SEC. 206. (a) In deciding among applicants for assistance under this title, the Secretary may give consideration to—

(1) the extent to which the proposed project will generate long-term private sector employment opportunities for residents of distressed areas, particularly unemployed, long-term unemployed, low-income, and socially and ecomomically disadvantaged residents;

(2) the degree of distress in the area in which the project is to be implemented;

(3) the level of other public and private sector investment committed to financing the proposed project; and

(4) the degree to which the proposed project will benefit socially and economically disadvantaged individuals and firms owned by such individuals.

(b) The Secretary may also consider other factors, including but not limited to—

(1) the extent to which the proposed project is consistent with local and statewide development plans or priorities;

(2) the extent to which the appropriate State and local governments have undertaken or agree to undertake other related actions to encourage economic development and the provision of employment opportunities in the distressed area;

(3) the extent of the contribution to the economic and fiscal base of the distressed area to be made by the project; and

(4) the appropriateness of the proposed project in view of the area's public facilities and services.

SEC. 207. Any funds appropriated and unobligated under titles I and IX of the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3121 et seq.), shall remain available for obligation under this title.

SEC. 208. (a) There are hereby authorized to be appropriated $595,200,000 for the purposes of this title for the fiscal year ending September 30, 1980. For the fiscal years ending September 30, 1981, September 30, 1982, September 30, 1983, September 30, 1984, and September 30, 1985,

there are authorized to be appropriated such funds as may be necessary to carry out the purposes of this title.

(b) Not more than 5 per centum of this authorization shall be expended pursuant to section 203(c) of this title.

(c) Not more than 5 per centum of this authorization shall be expended for projects located in areas designated under section 4(c)(2) of this Act.

(d) Not more than $40,000,000 of this authorization shall be expended pursuant to section 203(e) of this title.

TITLE III—DEVELOPMENT FINANCING

SEC. 300. The purpose of this title is to generate and retain private sector employment opportunities in distressed areas through direct loans; interest rate subsidies on loans and guaranteed loans; guarantees of loans; and to provide liquidity to financial institutions through the loan guarantee program to make long-term loans to private firms.

DIRECT LOANS

SEC. 301. (a) The Secretary is authorized to make direct loans for eligible projects which are located in an area designated under section 4(a), 4(b), or 4(c)(2) of this Act and which are consistent with an approved economic adjustment plan or overall economic development program, as appropriate.

(b) The Secretary shall make direct loans at an interest rate not less than a rate determined by the Secretary of the

Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods of maturity comparable to the average maturities of such loans, adjusted to the nearest one-eighth of 1 per centum, plus additional charges, if any, toward covering other costs of the program as the Secretary may determine to be consistent with its purpose. Loans shall not exceed 75 per centum of the aggregate cost to the applicant, excluding all other Federal aid, for all eligible activities.

(c) Loan assistance under this section shall be on the condition that not less than 15 per centum of the aggregate cost is to be supplied as equity capital or as a loan repayable in no shorter period of time and at no faster an amortization rate than the loan extended under this section is being repaid and if such a loan is secured, its security shall be subordinated to the lien or liens securing the loan extended under this section.

(d) During any time that any loan made under this section is outstanding, the Secretary is authorized, under regulations prescribed by the Secretary, to take any and all actions determined to be necessary or desirable in dealing with or realizing on loans.

(e) A direct loan shall only be available if the Secretary determines the project could not be accomplished in the same manner by a guaranteed loan under this title.

GUARANTEED LOANS

SEC. 302. (a) The Secretary is authorized to guarantee the payment of the principal amount of, and interest on, one or more loans made to finance eligible projects upon application of the maker of such loans. Such guarantee may be for 100 per centum of up to 90 per centum of such loans, including principal and interest, except that no such guarantee shall at any time exceed the guaranteed portion of the amount of the outstanding unpaid balance of such loan including reasonable costs as determined by the Secretary.

(b) The Secretary shall not guarantee any loan under this section if—

(1) the rate of interest on either the portion to be guaranteed or the portion not to be guaranteed is determined by the Secretary to be excessive; or

(2) the interest on the loan is exempt from Federal income tax under section 103 of the Internal Revenue Code of 1954, as amended.

(c) Guarantees under this section shall only be made for projects which are located in areas designated under section 4(a), 4(b), or 4(c)(2) of this Act and which are consistent with

an approved economic adjustment plan or overall economic development program, as appropriate.

(d) The full faith and credit of the United States is pledged to the payment of all guarantees made under this section with respect to both principal and interest, including interest as provided for in the guarantee accruing between date of default under a guaranteed obligation and the payment in full of the guarantee.

(e) The Secretary of the Treasury shall approve the interest rate, timing, and other terms and conditions of the financing of guaranteed obligations, except that the Secretary of the Treasury may waive this requirement with respect to the financing of any guaranteed obligation when it is determined that such financing does not have a significant impact on the market for Government and Government-guaranteed securities.

(f) The Secretary may assess appropriate and reasonable fees and charges to guarantee loans.

(g) The Secretary of the Treasury is authorized to purchase loan guarantees under this Act through the Federal Financing Bank.

INTEREST SUBSIDIES

SEC. 303. (a) In the case of any loans guaranteed under this title or any other loan made to finance an eligible project located in an area designated under section 4(a), 4(b), or

4(c)(2) of this Act, the Secretary is authorized to contract to pay annually, or at such shorter intervals as the Secretary deems appropriate, for a period not to exceed thirty years, on behalf of the borrower a portion of each interest payment with respect to the principal amount of such loan: *Provided*, That such interest payments may be made only if—

(1) the interest on the loan is not exempt from Federal income tax under section 103 of the Internal Revenue Code of 1954, as amended; and

(2) the loan is not the subject of any other guarantee, interest subsidy, or other form of financial assistance from any other Federal agency, or any State or local government, or any agency, department, or instrumentality thereof.

(b) In the case of direct loans under section 301, the Secretary is authorized to provide an interest subsidy by reducing the interest rate established in section 301(b) in accordance with section 303(c).

(c) In no event shall such payments under section 303(a) or reduction of interest under section 303(b) on loans by the Secretary reduce the effective rate of interest payable more than 7 percentage points. In no event shall the rate payable be reduced to a rate lower than 3 per centum per annum.

ELIGIBLE ACTIVITIES

SEC. 304. The following activities will be eligible for assistance under this title if they are related to industrial or commercial purposes and will generate or retain private sector employment:

(a) the purchase or development of land and facilities including, demolition; the construction of new buildings; and the rehabilitation, alteration, conversion, or modernization of abandoned or occupied buildings;

(b) the purchase or modernization of machinery or equipment;

(c) the provision of working capital;

(d) the payment of debts with respect to which a legally enforceable lien has been obtained to secure the payment of money for the purchase of or improvement to real or personal property or for working capital.

SELECTION OF APPLICANTS

SEC. 305. (a) The Secretary shall establish, by regulation, criteria for deciding among applicants for assistance under this title. In deciding among applications for assistance under this title the Secretary may give primary consideration to the following factors:

(1) the extent to which the proposed project will provide long-term private sector employment opportunities to residents of the area, particularly unemployed,

long-term unemployed, low-income, and socially and economically disadvantaged residents;

(2) the degree of distress in the area in which the project is to be implemented;

(3) the level of private sector equity investment committed to financing the proposed project; and

(4) the degree to which the proposed project will benefit socially and economically disadvantaged individuals and firms owned by such individuals.

(b) The Secretary may also consider other factors, including but not limited to—

(1) the extent to which the proposed project is consistent with local and statewide development plans or priorities;

(2) the extent to which the appropriate State and local governments have undertaken or agree to undertake other related actions to encourage economic development and the provision of employment opportunities in the distressed area;

(3) the extent of the contribution to the economic and fiscal base of the distressed area to be made by the project; and

(4) the appropriateness of the proposed project in view of the area's labor force.

CONDITIONS ON ASSISTANCE

SEC. 306. Assistance under this chapter shall be on such terms and conditions as the Secretary determines, subject, however, to the following restrictions and limitations:

(a) Such assistance shall be extended only if the Secretary determines that credit is not otherwise available on terms adequate to achieve the purposes of this title for activities within an area designated under section 4(a), 4(b), or 4(c)(2) of this Act.

(b) Such assistance shall not be extended without the concurrence of the chief elected official or such official's designees responsible for economic development in the area in which the eligible activities will be located, or without a waiver of this concurrence by the Secretary. Such waiver shall only be granted in the case of unavoidable conflicts of interest or through regulations established by the Secretary.

(c) No loans shall be made or guaranteed unless the Secretary determines through an appropriate method that there is reasonable assurance of repayment.

(d) No loan or guarantee, including renewals or extensions thereof, may be made under this title for a period exceeding the lesser of thirty years or the expected life of the asset financed: *Provided,* That the foregoing restrictions on maturities shall not apply to securities or obligations received by the Secretary as a claimant in bankruptcy or equitable

46-633 O - 79 -- 12

reorganization or as a creditor in other proceedings attendant upon insolvency of the obligor.

(e) Any guarantee or interest subsidy agreement shall be conclusive evidence of the eligibility of the obligation for such guarantee on interest subsidy, and the validity of any guarantee or interest subsidy agreement shall be incontestable.

(f) To the extent the Secretary finds such action necessary to encourage financial participation in a particular project by other lenders and investors, and except as otherwise provided in section 301(c) of this title, any Federal financial assistance extended under this title may be repayable only after other loans made in connection with such project have been repaid in full, and the security, if any, for such Federal financial assistance may be subordinate and inferior to the lien or liens securing other loans made in connection with the same project.

(g) Dollar amount limitations on loans to be guaranteed under this title shall be determined by regulation.

(h) For any direct or guaranteed loan made under the authority of this title, the Secretary is authorized to enter into arrangements for the servicing, including foreclosure, of such loans or evidences of indebtedness on reasonable terms and protecting the financial interests of the United States.

ELIGIBILITY

SEC. 307. Notwithstanding any other provision of this Act, an applicant located in an area eligible for designation under section 4 (a), (b), or (c)(2) of this Act, may receive any assistance under this title, during fiscal years 1980 and 1981, even if such area does not have an overall economic development program approved by the Secretary.

AUTHORIZATIONS

SEC. 308. (a) There are authorized to be appropriated to carry out the development financing programs of this title, $569,350,000 for the fiscal year ending September 30, 1980; and for each of the fiscal years ending September 30, 1981, September 30, 1982, September 30, 1983, September 30, 1984, and September 30, 1985, such sums as may be necessary to carry out the purposes of this title: *Provided,* That not more than 30 per centum of such funds shall be used for working capital loans and guarantees.

(b) The Secretary is authorized to pay the principal and interest on loans guaranteed under the authority of section 302 of this Act, and on outstanding unpaid balances of loans guaranteed under the authority of section 202 of the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3142) and there is hereby authorized to be appropriated such amounts as may be necessary for the payment of principal and interest on loans in default and guaranteed pur-

suant to section 302 of this Act and section 202 of the Public Works and Economic Development Act of 1965, to remain available until expended.

(c) For the fiscal year ending September 30, 1980, the full value of loans guaranteed under section 303 of this title are authorized in an amount not to exceed $1,800,000,000 and to such extent contained in appropriation Acts. For fiscal years ending September 30, 1981, September 30, 1982, September 30, 1983, September 30, 1984, and September 30, 1985, the full value of loans guaranteed are authorized in an amount and only to the extent contained in appropriation Acts, to carry out the purposes of this Act.

(d) Direct loans are authorized for any fiscal year only to the extent or in such amounts as provided in appropriation Acts.

CONFIDENTIAL INFORMATION

SEC. 309. To the extent the Secretary deems it appropriate, consistent with the principles of section 552(b)(4) and section 552b(c)(4) of title 5, United States Code, that portion of any record, material, or data received by the Secretary in connection with any application for financial assistance under this title which contains trade secrets or commercial or financial information regarding the operation or competitive position of any business shall be deemed to be "privileged or confidential" within the meaning of those sections.

TITLE IV—RESEARCH, EVALUATION, AND DEMONSTRATION

SEC. 400. The purpose of this title is to authorize the Secretary to conduct programs of research, evaluation, and demonstration which are consistent with the objectives of this Act.

SEC. 401. (a) The Secretary is authorized to conduct programs of research and evaluation, including program evaluation, to—

(1) assist in determining the causes of unemployment, underemployment, severe economic adjustment problems, and chronic distress in areas and regions of the United States;

(2) assist in formulating, implementing, or improving programs at the National, State, regional, or local levels which are designed to raise income levels, increase employment in private firms, assist depressed industry sectors, or otherwise promote economic development or adjustment.

(b) The Secretary is authorized to conduct any demonstration program which the Secretary determines is designed to foster regional productivity and growth, prevent outmigration, alleviate problems of economic distress, assist depressed industry sectors, broaden the economic base, or otherwise carry out the purposes of this Act.

(1) Such demonstration programs may include programs which are intended to test the feasibility of new and innovative approaches which hold promise for general solutions to problems of economic distress in areas and regions of the United States.

(2) In extending assistance for a demonstration program, eligible activities include any form of assistance authorized under any of the titles of this Act or any other activity, including assistance for employee stock ownership trusts, which demonstrably furthers the objectives of the Act.

(c) The Secretary is authorized to provide personnel to conduct such programs.

(d) the Secretary is authorized to provide assistance under this title—

(1) in areas designated under section (4) (a), (b), or (c)(2) of this Act; and

(2) in other areas which the Secretary determines have a substantial need for such assistance.

SEC. 402. Programs authorized under this title may be carried out by the Secretary acting through the staff of the Department; in cooperation with or by the provision of funding to other departments or agencies of the Federal Government; or through any form of assistance authorized by this Act to multistate organizations, State and local agencies,

profit or nonprofit corporations, institutions or other associations, partnerships or persons, whether public or private.

SEC. 403. There are hereby authorized to be appropriated $4,000,000 for the purpose of this title for the fiscal year ending September 30, 1980. For each of the fiscal years ending September 30, 1981, September 30, 1982, September 30, 1983, September 30, 1984, and September 30, 1985, there are hereby authorized to be appropriated such funds as may be necessary to carry out the purposes of this title.

TITLE V—ADMINISTRATION

SEC. 501. (a) The Secretary shall administer this Act. The Under Secretary for Economic Development created by this section shall be appointed by the President by and with the advice and consent of the Senate and shall be compensated at the rate provided for level III of the Federal Executive Salary Schedule. Such Under Secretary shall perform such functions as the Secretary may prescribe.

(b) Paragraph (5) of subsection (c) of section 303 of the Federal Executive Salary Act of 1964 is amended by adding "(2)" after "Under Secretary of Commerce."

SEC. 502. (a) The Secretary is authorized from time to time to call together and confer with any persons, including representatives of labor, management, finance, agriculture, and government, who can assist in meeting the problems of

area and regional unemployment, underemployment, and economic adjustment.

(b) The Secretary is authorized to take such actions as are necessary to ensure coordination with activities assisted under the Comprehensive Employment and Training Act of 1978 (29 U.S.C. 801), and to provide employment opportunity in activities assisted under this Act for persons eligible under the provisions of the Comprehensive Employment and Training Act of 1978.

ADMINISTRATION OF ASSISTANCE

SEC. 503. No Federal assistance shall be approved under this Act unless the Secretary is satisfied that the project for which Federal assistance is granted will be properly and efficiently administered, operated, and maintained.

POWERS OF THE SECRETARY

SEC. 504. In performing the duties under this Act, the Secretary is authorized to—

(1) adopt, alter, and use a seal or seals, which shall be judicially noticed;

(2) hold such hearings, sit and act at such times and places, and take such testimony, as may be deemed advisable;

(3) request directly from any Federal executive department, bureau, agency, board, commission, office, independent establishment, or instrumentality informa-

tion, suggestions, estimates, and statistics needed to carry out the purposes of this Act; and each department, bureau, agency, board, commission, office, establishment, or instrumentality is authorized to furnish such information, suggestions, estimates, and statistics directly to the Secretary;

(4) under regulations prescribed by the Secretary, assign or sell at public or private sale, or otherwise dispose of for cash or credit, as discretion dictates, and upon such terms and conditions and for such consideration as shall be determined to be reasonable, any debt, contract, claim, personal property, or security assigned to or held by the Secretary in connection with loans or guarantees made or debts purchased under this Act, and collect or compromise all obligations assigned to or held by the Secretary in connection with such loans, guarantees, or debts;

(5) notwithstanding section 306(d) of this Act, further extend the maturity of or renew any loan or guarantee made under this Act, beyond the periods stated in such loan, guarantee, or debt or in this Act, for additional periods not to exceed ten years, if such extension or renewal will aid in the orderly liquidation of such loan, guarantee, or debt;

(6) deal with, complete, renovate, improve, modernize, insure, rent, or sell for cash or credit, upon such terms and conditions and for such consideration as shall be determined to be reasonable, any real or personal property with respect to which the Secretary has a lien or other interest as a creditor or guarantor, or which is conveyed to, or otherwise acquired by the Secretary, in connection with loans or guarantees made or debts purchased under this Act;

(7) pursue to final collection, by way of compromise or other administrative action, all claims against third parties assigned to or otherwise held by the Secretary in connection with loans or guarantees made or debts purchased under this Act; this shall include authority to obtain deficiency judgments or otherwise in the case of mortgages or other security assigned to the Secretary; the power to convey and to execute, in the name of the Secretary, deeds of conveyance, deeds of release, assignments, and satisfactions of mortgages, and any other written instrument relating to real or personal property or any interest therein held or acquired by the Secretary pursuant to the provisions of this Act as may be exercised by the Secretary or by any officer or agent appointed by the Secretary for

that purpose without the execution of any express delegation of power or power of attorney;

(8) acquire in any lawful manner, any property (real, personal, or mixed, tangible or intangible), whenever deemed necessary or appropriate to the conduct of the activities authorized in this Act;

(9) in addition to any powers, functions, privileges, and immunities otherwise vested in the Secretary, take any and all actions, including the procurement of the services of attorneys by contract, determined by the Secretary to be necessary or desirable in making, purchasing, servicing, compromising, modifying, liquidating, or otherwise administratively dealing with or realizing on loans or guarantees made or evidences of indebtedness purchased under this Act;

(10) employ experts and consultants or organizations therefor as authorized by section 15 of the Administrative Expenses Act of 1946 (5 U.S.C. 3109), compensate individuals so employed at rates not in excess of the per diem rate authorized for grade GS–18 of the General Schedule including traveltime, and allow them, while away from their homes or regular places of business, travel expenses (including per diem in lieu of subsistence) as authorized by such Act (5 U.S.C. 5703), for persons in the Government serv-

ice employed intermittently: *Provided, however,* That contracts for such employment may be renewed annually;

(11) in performing the duties under this Act, sue and be sued in any United States court which otherwise has jurisdiction with respect to the subject matter of the suit: *Provided, however,* That notwithstanding the foregoing and any other provision of law—

(i) the immunity of the United States, the Secretary, or any officers or employees of the United States is not waived with respect to any suit brought against the Secretary, the United States, any officers or employees of the United States, or any of them in connection with this Act, which seeks attachment, garnishment, a mandatory or prohibitory injunction, or similar process, interim or final; and

(ii) no court shall enter any temporary restraining order, preliminary injunction, permanent injunction, or similar order or judgment against the United States, the Secretary, any officers or employees of the United States, or any of them, which would contravene or conflict with the provisions of paragraph (i) of this subsection;

notwithstanding any of the foregoing provisions, suits with respect to the activities of the Secretary or the officers or employees of the United States under this Act that are cognizable under section 1346(b) of title 28, United States Code, shall be subject to the provisions of sections 516 through 519 and 2671 through 2680 of title 28, United States Code;

(12) in making grants, retain an amount not to exceed 10 per centum of the grant until the recipient provides assurances satisfactory to the Secretary that the project meets all the requirements imposed pursuant to this Act; and

(13) establish such rules, regulations, and procedures; make such findings; establish and engage in such practices; and, enter into such agreements as the Secretary may deem appropriate in carrying out the provisions of this Act.

SAVINGS PROVISIONS

SEC. 505. (a) No suit, action, or other proceedings lawfully commenced by or against a Federal official in such official's capacity or in relation to the discharge of official duties under the Public Works and Economic Development Act of 1965, as amended, including section 704(a) thereof (42 U.S.C. 3214), shall abate by reason of the taking effect of the provisions of this Act, but the court may, on motion or sup-

plemental petition filed at any time within twelve months after such taking effect, showing a necessity for the survival of such suit, actions involved, allow the same to be maintained by or against the Secretary.

(b) Except as may be otherwise expressly provided in this Act, all powers and authorities conferred by this Act shall be cumulative and additional to and not in derogation of any powers and authorities otherwise existing. All rules, regulations, orders, authorizations, delegations, or other actions duly issued, made, or taken by or pursuant to applicable law, prior to effective date of this Act, by any agency, officer, or office pertaining to any functions, powers, and duties under the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3121), shall continue in full force and effect after the effective date of this Act until modified or rescinded by the Secretary or such other officer of the Department of Commerce as, in accordance with applicable law, may be appropriate.

TRANSFER OF FUNCTIONS, EFFECTIVE DATE, AND LIMITATIONS ON ASSISTANCE

SEC. 506. (a) The functions, powers, duties, and authorities under the Public Works and Economic Development Act of 1965, as amended, including section 704(a) thereof (42 U.S.C. 3214), as they relate to financial assistance provided before the date of enactment of this Act and which may

require further attention by the Secretary, and the assets, funds, contracts, loans, liabilities, commitments, authorizations, allocations, and records which are vested in the Secretary under the Public Works and Economic Development Act of 1965, as amended, shall continue to be vested in the Secretary.

(b) The President may designate a person to act as Under Secretary for Economic Development under this Act until the office is filled as provided in section 501(a) of this Act or until the expiration of ninety days following the effective date of this Act, whichever shall first occur. While so acting each person shall receive compensation at the rate provided by section 501(a) of this Act for the office to which such person is appointed in acting capacity.

(c) The personnel, property, records, and unexpended balances of appropriations, allocations, and other funds of the Economic Development Administration which was organized to administer the Public Works and Economic Development Act of 1965, as amended, shall become the personnel, property, records, and unexpended balances of the Economic Development Administration or of such other organizational entity, or entities of the Department of Commerce as the Secretary of Commerce shall determine.

(d) The provisions of this Act shall take effect upon enactment.

SEPARABILITY

SEC. 507. Notwithstanding any other evidence of the intent of Congress, it is hereby declared to be the intent of Congress that if any provision of this Act or the application thereof to any persons or circumstances shall be adjudged by any court of competent jurisdiction to be invalid such judgment shall not affect, impair, or invalidate the remainder of this Act or its application to other persons and circumstances, but shall be confined in its operation to the provision of this Act or the application thereof to the persons and circumstances directly involved in the controversy in which such judgment shall have been rendered.

ANNUAL REPORT

SEC. 508. The Secretary shall make a comprehensive and detailed annual report to the Congress of operations under this Act for each fiscal year beginning with the fiscal year ending September 30, 1981. Such report shall be printed and shall be transmitted to the Congress not later than April 1 of the year following the fiscal year with respect to which such report is made.

USE OF OTHER FACILITIES

SEC. 509. (a) The Secretary is authorized to delegate to the heads of other departments and agencies of the Federal Government any of the Secretary's functions, powers, and duties under this Act as may be deemed appropriate.

(b) Departments and agencies of the Federal Government shall exercise their powers, duties, and functions in such manner as will assist in carrying out the objectives of this Act.

(c) Funds authorized to be appropriated under this Act may be transferred between departments and agencies of the Government, if such are used for the purposes for which they are specifically authorized and appropriated.

AUTHORIZATIONS

SEC. 510. There are hereby authorized to be appropriated such sums as may be necessary to carry out those provisions of the Act for which specific authority for appropriations is not otherwise provided in this Act. Appropriations authorized under this Act shall remain available for program and administrative expenses under this Act, for programs assigned to the Economic Development Administration including but not limited to administrative expenses for the administration of the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3121), the Area Redevelopment Act (42 U.S.C. 2501), title II of the Trade Act of 1974 (19 U.S.C. 2101), the Local Public Works Capital Development and Investment Act of 1976, as amended (42 U.S.C. 6701), the Olympic Winter Games Authorization Act of 1976, Public Law 94–427, and title I of the Community Emergency Drought Relief Act of 1977 (42 U.S.C. 5184),

46-633 O - 79 -- 13

until the appropriations are expended unless otherwise provided by appropriations Acts.

PENALTIES

SEC. 511. (a) Whoever makes any statement knowing it to be false, or whoever wilfully overvalues any security, for the purpose of obtaining for himself or for any applicant any financial assistance under this Act or any extension thereof by renewal, deferment or action, or otherwise, or the acceptance, release, or substitution of security therefor, or for the purpose of influencing in any way the action of the Secretary or for the purpose of obtaining money, property, or anything of value, under this Act, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

(b) Whoever, being connected in any capacity with the Secretary, in the administration of this Act (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to him or pledged or otherwise entrusted to him, or (2) with intent to defraud the Secretary or any other body politic or corporate, or any individual, or to deceive any officer, auditor, investigator, or examiner, makes any false entry in any book, report, or statement of or to the Secretary, or without being duly authorized draws any orders or issues, puts forth, or assigns any note, debenture, bond, or other obligation, or draft, bill of

exchange, mortgage, judgment, or decree thereof, or (3) with intent to defraud participates or shares in or receives directly or indirectly any money, profit, property, or benefit through any transaction, loan, grant, commission, contract, or any other act of the Secretary, or (4) gives any unauthorized information concerning any future action or plan of the Secretary which might affect the value of securities, or having such knowledge invests or speculates, directly or indirectly, in the securities or property of any company or corporation receiving loans, grants, or other assistance from the Secretary, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

Criminal Provisions

(c) Section 665, chapter 31 of title 18, United States Code, is amended to read as follows:

"THEFT OR EMBEZZLEMENT; IMPROPER INDUCEMENT

"SEC. 665. (a) Whoever, being an officer, director, agent, or employee of, or connected in any capacity with, any agency or other entity receiving financial assistance under either the Comprehensive Employment and Training Act of 1978 or the National Public Works and Economic Development Act of 1979 or embezzles, willfully misapplies, steals, or obtains by fraud any other moneys, funds, assets, or property which are the subject of a loan guarantee, grant, or contract of assistance pursuant to such Acts shall be fined not

more than $10,000 or imprisoned for not more than two years, or both; but if the amount so embezzled, misapplied, stolen, or obtained by fraud does not exceed $100, he shall be fined not more than $1,000 or imprisoned not more than one year, or both.

"(b) Whoever, by threat of procuring dismissal of any person from employment or of refusal to employ or refusal to renew a contract of employment in connection with a grant, loan guarantee, or contract of assistance under the Comprehensive Employment and Training Act of 1973 or the National Public Works and Economic Development Act of 1979, induces any person to give up any money or thing of any value to any person (including such grantee agency) shall be fined not more than $1,000, or imprisoned not more than one year, or both.".

EMPLOYMENT OF EXPEDITERS AND ADMINISTRATIVE EMPLOYEES

SEC. 512. No financial assistance shall be extended by the Secretary under this Act unless the applicant (1) certifies to the Secretary the names of any attorneys, agents, and other persons engaged by or on behalf of such applicant for the purpose of expediting applications made to the Secretary for assistance of any sort, under this Act, and the fees paid or to be paid to any such person; and (2) executes an agreement binding such applicant for a period of two years after such

assistance is rendered by the Secretary to such applicant to refrain from employing, tendering any office or employment to, or retaining for professional services, any person who, on the date such assistance or any part thereof was rendered, or within one year prior thereto, shall have served as an officer, attorney, agent, or employee, occupying a position or engaging in activities which the Secretary shall have determined involve discretion with respect to the granting of assistance under this Act. Under such terms and conditions as the Secretary may prescribe, the applicant may submit, in lieu of the foregoing certification and agreement, assurances that essentially serve the same purposes: *Provided, however,* That in regard to assistance extended to a State or a political subdivision of a State, the prohibition in subsection (2) hereof shall apply only to employment or services in connection with the program or project activity for which such assistance is extended.

RECORDS AND AUDITS

SEC. 513. (a) Each recipient of assistance under this Act shall keep such records as the Secretary shall prescribe, including records which fully disclose the amount and the disposition by such recipient of the proceeds of such assistance, the total cost of the project or undertaking in connection with which such assistance is given or used, and the amount and nature of that portion of the cost of the project or

undertaking supplied by other sources, and such other records as will facilitate an effective audit.

(b) The Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access for the purpose of audit, investigation, and examination to any books, documents, papers, and records of the recipient that are pertinent to the assistance received under this Act.

ASSISTANCE LIMITATIONS

SEC. 514. All assistance authorized under this Act shall be in addition to any Federal assistance previously authorized, and no provision hereof shall be construed as authorizing or permitting any reduction or diminution in the proportional amount of Federal assistance to which any State or other entity eligible under this Act would otherwise be entitled under provisions of any other Act.

NONRELOCATION

SEC. 515. Direct financial assistance under this Act shall not be extended to assist establishments relocating from one area to another or to assist subcontractors whose purpose is to divest, or whose economic success is dependent upon divesting, other contractors or subcontractor of contracts theretofore customarily performed by them: *Provided, however,* That such limitations shall not be construed to prohibit assistance which allows the expansion of an existing

business entity through the establishment of a new branch, affiliate, or subsidiary of such entity if the Secretary finds that the establishment of such branch, affiliate, or subsidiary will not result in an increase in unemployment in the area of original location or in any other area where such entity conducts business operations, unless the Secretary has reason to believe that such branch, affiliate, or subsidiary is being established with the intention of closing down a substantial portion of the operations of the existing business entity in the area of its original location or in any other area which it conducts such operations.

REPEAL PROVISIONS

SEC. 516. (a) Except as provided in subsection (a) of section 704 of the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3121), that Act is hereby repealed.

(b) All funds under section 203 of the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3143), shall be transferred to the Secretary of the Treasury and all payments that otherwise would be deposited into that revolving fund shall be deposited in the Treasury.

NONDISCRIMINATION AND AFFIRMATIVE ACTION

SEC. 517. (a) No person in the United States shall, on the ground of sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under

any program or activity receiving Federal financial assistance under this Act.

(b) The Secretary shall administer the programs under this Act in a manner affirmatively to further participation in those programs, and in the projects they support, by socially and economically disadvantaged individuals and by firms owned by such individuals.

(c) The Secretary may require each State or political subdivision of a State, applying for assistance under this Act, to demonstrate reasonable progress in providing socially and economically disadvantaged individuals with opportunity for equal employment.

ANTI-INFLATION

SEC. 518. (a) The Secretary may require that financial assistance under this Act shall not be expended for any increase in salaries or wages which exceeds anti-inflationary guidelines established by the President.

(b) The Secretary may not, pursuant to subsection (a), impose any condition on financial assistance under this Act which is inconsistent with the requirements of section 522 of this Act.

PREVENTION OF UNFAIR COMPETITION

SEC. 519. No financial assistance under this Act shall be extended to any project when the result would be to increase the production of goods, materials, or commodities, or

the availability of services or facilities, when there is not sufficient demand for such goods, materials, commodities, services, or facilities, to employ the efficient capacity of existing competitive commercial or industrial enterprises. Financial assistance may be provided, however, in those instances where the project is located in an economically distressed geographical area and when modernization of productive services or facilities is essential for the retention of existing employment in that area.

INTERSTATE COMPACTS

SEC. 520. In order to fulfill the purposes of this Act, an eligible applicant located in one State or a State itself is authorized to enter into agreements with an eligible applicant located in another State or another State to apply jointly for assistance under this Act.

AVAILABILITY OF FINANCIAL ASSISTANCE

SEC. 521. It is the intent of Congress that the financial assistance contemplated by this Act shall be available throughout the United States, notwithstanding State laws which may restrict the lending of public credit in certain localities.

PREVAILING RATE OF WAGE

SEC. 522. All laborers and mechanics employed by contractors or subcontractors on projects assisted by the Secretary under this Act shall be paid wages at rates not less than

those prevailing on similar construction in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act, as amended (40 U.S.C. 276a–276a–5). The Secretary shall not extend any financial assistance for projects under this Act without first obtaining adequate assurance that these labor standards will be maintained upon the construction work. The Secretary of Labor shall have, with respect to the labor standards specified in this provision, the authority and functions set forth in Reorganization Plan Numbered 14 of 1950 (15 F.R. 3176; 64 Stat. 1267; 5 U.S.C. 133z–15), and section 2 of the Act of June 13, 1934, as amended (40 U.S.C. 276c).

II

96TH CONGRESS
1ST SESSION

S. 971

To amend the Public Works and Economic Development Act to provide economic development assistance to regions suffering from increases in energy-related employment.

IN THE SENATE OF THE UNITED STATES

APRIL 10 (legislative day, APRIL 9), 1979

Mr. HART (for himself and Mr. RANDOLPH) introduced the following bill; which was read twice and referred to the Committee on Environment and Public Works

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A BILL

To amend the Public Works and Economic Development Act to provide economic development assistance to regions suffering from increases in energy-related employment.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Energy-Related Economic Development Act of 1979".

SEC. 2. The Public Works and Economic Development Act of 1965 is amended by adding the following new title:

"TITLE XI—ENERGY-RELATED ECONOMIC DEVELOPMENT ASSISTANCE

"SEC. 1101. There are authorized to be appropriated to the Secretary of Commerce not to exceed $150,000,000 for each of fiscal years 1980, 1981, 1982, and 1983, to carry out a program of economic development assistance in regions suffering economic or community dislocation as a result of increases in energy-related employment.

"SEC. 1102. The Secretary shall provide financial assistance in accordance with title IX of this Act to any State or community designated by the Governor with the concurrence of the Secretary as appropriate for assistance under this title. The Secretary is authorized to make grants for the costs of economic development planning activities in regions suffering economic dislocation as described in section 1101. Such planning shall be conducted in accordance with section 303 of the Regional Development Act of 1979.

"SEC. 1103. Upon application by a regional commission established under title V of this Act or the Appalachian Regional Development Act, all funds allocated by the Secretary for assistance under this title to States in such region for which request is made, shall be made available to the Federal Cochairman of such commission to carry out the authorities of the Secretary under section 1102 of this title. All assistance provided by a regional commission with such funds shall

comply with the provisions of title III of the Regional Development Act of 1979, and such funds may be used pursuant to section 207 of such Act.

"SEC. 1104. The Secretary shall take such measures as may be necessary to provide coordination among Federal programs providing economic development or community facility assistance, to assure that such assistance is available in a convenient, timely, and effective manner to States and communities in regions suffering economic or community dislocation as a result of increases in energy-related employment.".

Senator RANDOLPH. The committee is in recess.

[Whereupon, at 12 noon, the subcommittee recessed, to reconvene subject to the call of the Chair.]

EXTENSION OF THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965

TUESDAY, APRIL 24, 1979

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT,
Washington, D.C.

The subcommittee met at 9:35 a.m., in room 4200 Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman of the subcommittee) presiding.

Present: Senators Randolph, Burdick, and Domenici.

OPENING STATEMENT OF HON. QUENTIN N. BURDICK, U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

Senator BURDICK. Good morning. Today is the first of 2 days of hearings devoted to the reauthorization of the EDA programs. S. 914, introduced on April 5, is the administration's bill calling for some reshaping of present programs.

Earlier this month Assistant Secretary Hall presented an extensive explanation of the new bill. Among other things, it consolidates and simplifies the eligibility system that should better target funds and at the same time take account of some geographic balance in areas eligible. This subcommittee will be marking up this legislation next week—perhaps Tuesday or Wednesday. We have not yet seen a printout or a map showing exactly what areas will be eligible under the new bill. It is my understanding that such information will be provided us by EDA this week.

As you know, the Senate budget resolution is being considered on the Senate floor this week. Deep cuts are recommended in the administration's budget. However, the programs authorized in the proposed bill before us were not cut by the committee. This apparent confidence that these economic development activities are useful tools to deal with structural, long-term unemployment is also shared by the Joint Economic Committee. In its recently released annual report—which is a unanimous report—the JEC called for modest increases in these programs, while recommending a very tight budget.

But these programs are not beyond criticism. Nor should we accept without question that they are worth the increased Federal resources being requested for the coming years. How far should the Federal Government go in stimulating the private sector to provide jobs? Is it imperative that, in addition to targeting to places, we must target to the disadvantaged in those places? This morning we

have witnesses who will, I am sure, shed some light on those and other fundamental questions.

We have a witness today from the General Accounting Office who will present the views of that agency on the proposed inland energy impact assistance bill that was introduced as S. 971 just before the recess on April 10 by Senators Hart and Randolph of this committee. I understand this bill, much like the Hart-Randolph bill of last year, would amend the Public Works and Economic Development Act, and that program would be administered by EDA. We have had a number of hearings on this issue in recent years. Because of the limits on out time to consider legislation this spring, we will not hold a separate set of hearings on this bill. Tomorrow I expect a witness to present a supportive view on this bill.

Many of you are aware that title III of S. 914, the business development or development financing program, has been referred to the Senate Banking Committee. I want to encourage witnesses to present your views on that program. This committee needs to consider this matter, too, as an integral part of EDA's economic development programs. We have had the responsibility for the business development programs of title II in the past. But we have had to share jurisdiction on that part of the program because of its increase in importance as a tool and in funding levels.

Finally, witnesses are requested to confine their prepared remarks to no more than 10 minutes. After that, members of the subcommittee will offer questions. If you go over 10 minutes, I shall have to notify you with this gavel.

Our first witness this morning is Dr. Carl Holman, president of the National Urban Coalition.

STATEMENT OF CARL HOLMAN, PRESIDENT, NATIONAL URBAN COALITION, ACCOMPANIED BY PAUL PRIDE, EXECUTIVE DIRECTOR, PROJECT FOR DEVELOPMENT AND FINANCE OF THE OPPORTUNITY FUNDING CORPORATION

Mr. HOLMAN. Thank you, Mr. Chairman. I am accompanied by Mr. Paul Pride, executive director of the Project for Development and Finance of the Opportunity Funding Corporation and the Rural Center.

We are concerned especially at the coalition and with our economic development task force, which brings together both urban and rural community economic development people, with the fact that our depressed urban and rural communities need Federal assistance in developing coherent and effective economic development strategies at the community level. We think that the national Public Works and Economic Development Act now before the subcommittee does not adequately do so.

In the Chicago Woodlawn area, there is a section, when I was there at the University of Chicago, that was giving jobs for about 7,000 people. That economic strip has now pretty much disappeared, and it has led in part to the disintegration of that neighborhood. Our coalition affiliate, the Woodlawn Organization, is now helping to put that neighborhood back together again, and it has generated some 600 additional jobs as it has done so.

We are suggesting that the current legislation before you could achieve the same kind of purpose that Woodlawn and others are working toward through the use of intermediaries like State, local or regional development entities. But unless some of the changes we are suggesting are made, we are afraid that public capital is going to continue to be used to aggravate imbalances in the State and local economies, which are already serious, because we do believe that scarcity of public resources have been too often used to inflate the probability that the venture would have exceeded anyhow.

It seems to us that we must immediately establish a more equitable and efficient distribution of public development funds between large-scale development, which is often in the central business districts, and the other, more complex, and perhaps less visible form of development which takes place on the level of the individual neighborhood or rural community.

We don't think the problem really is low funding levels of existing programs or lack of coordination. We think what is needed is a new approach to economic development—approaches which will provide these things: Venture and equity capital to young, small, independent firms in distressed areas; technical and other forms of capacity building assistance to individual entrepreneurs and development intermediaries; and which foster the decentralization of the system for distributing that assistance.

A recent study by David Birch of MIT contains some striking findings about the importance of young, small, individual firms. He found that young firms, those 4 years old or less, are generating about 80 percent of all replacement jobs, and that this pattern holds true across all sectors of the economy and all regions. But more important, small firms, with 100 or fewer employees, generated 81.5 percent of all new jobs in the country; virtually all the new jobs in the Northeast; and 70.2 to 84.4 percent of new jobs in the other regions. Well over half of the jobs—56.2 percent—were created by independent firms of this size.

It is true that large corporations generate very few new jobs, and because of their financial strength and also because, I believe, this country, unlike many other countries, does not control locational decisions, these large firms are the first to redistribute their operations out of the declining urban and rural areas and into new ones.

I might also add parenthetically, there is information which points out that most of the new technology which has been developed in this country, the new inventions that have made a difference, have come from small firms rather than from the larger ones.

We think it is important that the bill focuses on the question of giving the kind of technical assistance these entrepreneurs and developing engineers need. The Citibank of New York, through its economic development center, has, since 1973, pursued a policy of giving loans to businesses which require more than a normal amount of time and effort. We think that more of this kind of thing should be encouraged and supported by the legislation.

Public policy in this area should have two aims: To increase the competitive success of individual entrepreneurs; and improve the

46-633 O - 79 -- 14

capacity of development entities to help these entrepreneurs succeed. This is best done, we think, as we point out in our testimony, by decentralizing the delivery of such assistance.

One of the great flaws we find in the law as the bill is drafted is that it does not give sufficient attention to community-based development organizations. Here we mean not just community development corporations. I would like to give an example of why this is important and to draw at this time upon a rural area.

In rural Mississippi, the section in which I was born, the delta of Mississippi, we have an organization, the Delta Foundation, whose executive director, Charles Bannerman, is on our task force that founded this organization in 1969, when 14 community-based organizations pooled their resources to provide increased economic development opportunity to the impoverished Mississippi Delta regions.

In 1970, 70 percent of the rural blacks in Mississippi were living below the poverty line. During the last 2 years, the Delta Foundation has provided $250,000 in grants which have leveraged $5.2 million in Federal, State, and private funds, and it has made loans and investments to promote economic development. The foundation's two for-profit spinoffs are Delta Enterprises, which provides over 400 labor-intensive jobs and generates sales in excess of $7 million, and Delta Development & Management Corp., which provides venture and equity capital for startup ventures in distressed communities. The community-based organizations which founded Delta continue to guide its operations and help identify development needs.

We would not pretend all such organizations have been as successful as the two Delta foundations. We are suggesting that this current law could be amended in ways which would strengthen the existing organizations of this kind and bring the work of others to full fruition.

Now to touch on some of the aspects of the bill we would like to comment on specifically.

We think the findings and purpose of this bill read rather as random and dissociated observations and objectives. What is needed here is a coherent vision of the market dysfunctions we are attempting to solve with public funds. I think we should have an explicit endorsement in the bill of community economic development.

For example, section 2(b)(2) should specifically include community-based, private, nonprofit development organizations in its exhortation on the coordination of public and private development efforts, and subsection (b)(3) should encourage economic development planning based on the assessment of needs at the community level.

We were pleased to note the inclusion of net employment loss as one of the distress factors under section 4(a)(1) because we had stressed the need to take into account not only poverty levels and unemployment rates, but also growth lag. However, the committee should strongly consider requiring that more than one distress factor be present for eligibility. This would tighten targeting, and it would help prevent public funds from going to areas which have high poverty or unemployment but which are already growing

rapidly. We would not like to see public funds adding to present imbalances in economic growth.

Title I, planning and technical assistance. Private, nonprofit, community-based organizations should be included as eligible recipients of capacity building assistance, section 101(a)(1), and, as in the first section of the bill, this title should explicitly include, as an objective, response to community economic development needs. Sublocal, or community organizations and strategies should be written into much of this title and later titles as well.

Plans prepared with EDA funds, section 101(b), should be oriented towards distressed portions of eligible areas. Plans and strategies prepared with EDA funds should squarely address community economic development problems—by assessing how the jurisdiction's taxing, regulatory, and spending powers now affect community economic development efforts and by defining new ways to use these powers in support of such development in the future.

We have a series of specific suggestions, which I will not try to go through at this time. I will make one change on page 12, item 11, where we are saying that the committee should consider a specific set aside for private, nonprofit organizations under this title and under title I. Here, rather than 8 percent, we would suggest that in the first year, 5 percent of the total funding be an appropriate commitment to community-based organizations.

One of the points we try to make throughout is that it is not so much the cost of financing as the access to financing which is the problem, and we have a number of recommendations which address themselves to that point.

I would like to touch briefly on item 16, title III development financing. We strongly suggest that interest subsidies be eliminated from the development tools authorized under this title, section 303. Roger Vaughan, an economist at Citibank, is one of the experts who finds interest subsidies to be almost a complete waste of public funds. Most studies show that the problem in distressed communities is not the cost of capital, but the access to capital. Public funds would be put to better use if they were committed to demonstration programs under title IV and designated for equity experiments.

I would like finally to suggest that the legislation should be so drawn it sets specific goals and strategies for assisting minority businessmen. We are dealing, both in the rural and urban areas, with areas in which the nonminority management has left, the nonminority firms have pretty much left, and there is a very strong need to see to it that the minorities who have inherited these areas get the kind of assistance which they need. Public funds should be designated, we think, to leverage the private sector in the capital enterprise needs in such a way as to revitalize this disinvested rural and urban area. Neighborhood or community-scale economic development is the most intricate, the most complex and it is the least visible stratum of development activity, and has been given short shrift by policymakers. And yet this is the very kind of economic development which will generate profitable investment opportunities, expand local tax bases, increase employment opportunities for those people living in those areas. I would hope community economic development would eventually come to

be synonymous with national economic development, that we would begin to recognize that only at the most local level can we begin to infuse our economy with the kind of resilience it needs. For so long as there are Woodlawns or Mississippi Delta areas, we will not be able to talk about a healthy national economy.

We cannot dismiss our disadvantaged communities. With this reauthorization of EDA we have a significant opportunity to redress the imbalance reflected in past national policies.

Thank you, Mr. Chairman.

Senator BURDICK. Thank you very much.

Do you have something to add or are you supporting this at this point?

Mr. PRIDE. I really have very little to add, Senator. I would like to reemphasize our belief and our findings based upon our work on the extraordinarily great importance of venture and equity capital for young, small, independent firms, the sources of employment in both distressed rural and urban areas, and for the need to decentralize the distribution system for delivery of that service. We find that the logic as well as the information of delivery is such that a centralized bureaucracy, or any sort of institution, has a great deal of difficulty delivering assistance to relative numbers of small firms. Through a decentralized delivery system venture and equity capital can be delivered to small firms in distressed areas.

Senator BURDICK. Thank you, gentlemen, for your comments.

The last comment you made about decentralizing this business almost runs counter to what has been happening—the drive for bigness and more efficiency. It is just going in the other direction. What makes you think we can successfully reverse that trend?

Mr. PRIDE. One, I am hopeful; I really think by necessity more than anything else. In our looking at how small firms need to be financed, it is clear that there are a number of disadvantages to a centralized system for delivery to the business. One is central organizations don't have information about what are essentially local firms, and therefore because information is so important to making underwriting judgments and everything else, central organizations tend to shy away from financing.

Second, they cannot provide the followup such firms need in order to maintain the viability of profit over time.

The third reason is one of cost. It costs no more to process a million dollar loan than it does a $10,000 loan. So if one wants to do a number of smaller financings of smaller companies, the centralized institution is not the appropriate vehicle for doing this sort of thing. The cost structure is such it needs to decentralize the activity just to make it cost-efficient for delivery of service to small companies.

Mr. HOLMAN. I would like to add one other thing drawn largely from some of the comments of the last meeting of our economic task force, which is a different thing from the economic and business development task force. This is made up mainly of economists.

One of the things they were pointing out there is it is not necessarily true that this move to a conglomeration is in the long run going to be extremely successful for this country. It is clear it has not necessarily made us more competitive in world market standing than before. They take research, for example, and point

out a great deal of research tends to go to packaging or finding some better way of impacting on the markets in this country; less and less to developing kinds of technologies which came largely out of small companies. That, for example, Polaroid, Xerox, these began as small companies which could put the time and the effort into trying to develop some thing which technically and technologically made a difference and created a great number of jobs. As these companies get large, very often they involve themselves in buying each other up, and it is very, very difficult for the kind of drive and job production that comes very often from very small businesses and very small operations to take place.

So we are not saying either or. We are saying that what is happening is that we are losing the opportunity for, whether it is for the white Tom Edisons or black George Washington Carvers, without whom we would not have had many of the chemical innovations which the paint industry and others have used, that we must pay more attention to this second part of the economy—that part which is composed of small companies or small neighborhood or community economic development agencies.

Senator BURDICK. When I referred to this growth, I wasn't supporting it. I was just giving you some facts.

Mr. HOLMAN. I understand that.

Senator BURDICK. Because I know in my State, and I come from a rural State, you see business developing all over, farm machinery companies; take the local grocery store which ceases except for a convenience store. Farms are getting big. I wonder where we can arrest it.

You call for greater community economic development. Isn't that what EDA has been doing in recent years? Isn't that our job—community development?

Mr. PRIDE. EDA does fund local organizations; it provides some technical assistance, and has provided technical assistance in its local organizations, and has provided a limited number of cases of business finance to companies organized and sponsored by local organizations. But what it has not been doing on a systematic basis, or few organizations have been doing, is trying to strengthen the capacity of local people to undertake, on a systematic basis, development in their own behalf by helping to develop at the local level financing which organizations can themselves package, underwrite, evaluate, identify, and finance equity ventures which will create jobs in their communities. This is a relatively new industry. We cannot say that all the experience has been successful, but that which has been successful has been extraordinarily so and we think offers, if not a model, a great prospect or foundation upon which future programs can be built.

Senator BURDICK. You refer to the operation of the Woodlawn Organization. Can you describe a little more of its operations?

Mr. HOLMAN. The Woodlawn Organization is one of those community development corporations which, with the assistance of foundations and some corporate and Federal funding, attempts to blend dealing with the social needs of the distressed community and economic needs. That is to say, Woodlawn has built housing for low- and moderate-income people in what has been a blighted area just the other side of the University of Chicago—really adjacent to

the university. In addition to that, it has, for example, like our Pasadena Coalition, purchased an area which they put together the funds for a shopping center. But then they sold that to a company whose business it is to run such shopping centers, and it is trying as it moves along to run job programs, to run housing programs, to deal with the economic revitalization of that area. More and more it is convinced that it is the economic restrengthening of the area which is going to be the quickest way of creating jobs in an area and dealing with some of the other social needs. Without the economic strength, it cannot survive.

Senator BURDICK. There is the example almost of what I have been saying. In Woodlawn you have a shopping center; then it became part of a larger center. There is the trend again.

Mr. HOLMAN. Both here and in Pasadena the chain has to operate that store in ways which are prescribed by the management of the TWO. That is, when they sign the agreement, they sign with certain kinds of understandings: First of all, that there would not be a moving-out kind of decision, which can be made very easily from on high. The other thing that they indicated was that there would have to be certain kinds of price standards, certain kinds of choices in terms of not trying to have the highest brand names, the most expensive kind of items there. It is possible to do co-op shopping and that kind of thing.

So I am saying when these community based organizations do allow a chain to come in, they try to prevent the kind of thing we have seen here in Washington, where drug chains have come in and then after a while they move out of that area and leave older people without pharmaceutical care and that kind of thing.

Senator BURDICK. You mention your experience with the Delta Foundation. "In 1970, 70 percent of rural blacks in Mississippi were living below the poverty line. During the last 2 years the foundation has provided $250,000 in grants to leverage $5.2 million in Federal, State, and private funds." Did that generate some small businesses, and if it did, do they still exist?

Mr. PRIDE. Yes, they do. As a matter of fact, I worked with Mr. Bannerman on the development of the Delta Foundation, and of the businesses that started out, none has failed, and I believe most have profited.

Senator BURDICK. Has there been any further State or Federal money injected into the area since 1970?

Mr. PRIDE. I am not aware that the Delta Foundation itself has received any State money. I believe it has received on a regular basis increments or some of its original grant money from the Community Services Administration. I do think they have been able to secure for their efforts funds from the Department of Labor for training of workers, and other EDA funds, for example, for community centers in connection with some leveraging in their business development activity and housing development activity and bring other Federal moneys into the area.

Senator BURDICK. What I am getting at is if they can be standing on their own feet, this is quite an example.

Mr. PRIDE. They really would like to be self-sufficient. They know they need to subsidize some of their activities. But they really do attest to being able to support themselves. Some have gotten close

in a short period of time, considering the environment in which they work.

Senator BURDICK. Gentlemen, I want to thank you for your testimony this morning, and we will give it careful consideration.

Mr. HOLMAN. Thank you very much.

Senator BURDICK. Our next witness is Mr. Henry Schechter, director of the department of urban affairs of the AFL–CIO. He is accompanied by Howard McGuigan, legislative representative of the AFL–CIO. Do you have anybody else in your group?

STATEMENT OF F. HOWARD McGUIGAN, LEGISLATIVE REPRESENTATIVE, AFL–CIO, ACCOMPANIED BY HENRY SCHECHTER, DIRECTOR, DEPARTMENT OF URBAN AFFAIRS, AFL–CIO, AND ARNOLD CANTOR, ASSISTANT DIRECTOR, DEPARTMENT OF RESEARCH, AFL–CIO

Mr. McGUIGAN. Yes, Mr. Chairman, Arnold Cantor, who is assistant director of our department of research of the AFL–CIO.

Senator BURDICK. I hope you can be as brief but still as effective as possible.

Mr. McGUIGAN. Our statement will be brief. We have a longer backup statement attached to the formal statement. (See p. 298.)

The AFL–CIO is pleased to have this opportunity to support an expanded Federal effort to generate jobs and strengthen the economy through public and private investment in areas with serious and chronic problems of unemployment, poverty, and economic distress.

We are also pleased that the EDA will be given more tools to work with, as we have been continually impressed with the agency's ability and success over the past 14 years in administering the 1965 act, its many amendments, and the two rounds of the local public works program.

There are, however, some sections of the bill that require modification, change, or clarification. And we would also urge this committee to add authority for a standby $4 billion public works construction program which would be automatically triggered into action in the event of an economic downturn.

A major question we have with S. 914 concerns the safeguards against subsidizing plant relocations and plant piracy. The 1965 act states, in the statement of purpose, "that under the provisions of this Act new employement opportunities should be created by developing and expanding new and existing public works and other facilities and resources rather than merely transferring jobs from one area of the United States to another." Such language is not included in the findings and purpose of S. 914. We believe this is a serious omission and urge it be corrected.

Along the same lines, the nonrelocation provision, section 515 of title V, states that "direct financial assistance under this Act shall not be extended to assist establishments relocating from one area to another."

In view of the many different types of assistance available under the bill, the term "direct" is vague, and the section should clearly indicate that no assistance of any kind may be so used.

Similar safeguards should also be written into the bill to preclude any assistance to firms engaged in labor disputes.

Title III, the development financing authority, represents a major and welcome new element to the legislation, and we support it with the following modifications:

Section 302(b)(1) states that the Secretary shall not guarantee a loan if the interest rate is determined by the Secretary to be excessive. That is an indefinite criterion, and since the Government would fully guarantee 90 percent of the loan amount, the risk of loss of such loans becomes negligible. The Secretary should be required to establish maximum interest rates for guaranteed loans at interest rate levels designed to meet the market.

In section 305(a)(1), with regard to the selection of applicants, a more definitive commitment to the employment of residents of the affected area should be required. Part of the applicant selection criteria should be the degree of commitment to employ area residents, the number and types of jobs, and wage levels.

Section 305(b)(4) should also include, as part of the selection criteria, the availability of resources to train area residents for employment while a project is being constructed—in collaboration with prospective employers and Department of Labor programs when possible.

Section 518, pertaining to anti-inflationary guidelines established by the President, is inappropriate, since the Congress has chosen not to give the President such authority through regular legislative channels.

We would also like to alert the committee to some potential adverse effects on the Nation's economic development effort stemming from the current international trade negotiations. It is possible that aid provided under this act could be considered a subsidy in violation of one of the international trade agreements. We urge this committee to make sure that legislation to implement this agreement does not in any way impair the economic development effort.

The standby program we recommend would require an overall budget authorization of at least $4 billion. Half the amount would be triggered into effect if the national unemployment rate rises to an average of 6 percent or more in a 3-month period and the remaining half to be triggered into effect at a 6.5-percent level.

We would like to emphasize that the trigger rate we recommend represents a recession level of unemployment. Since World War II, such rates of joblessness have occurred only in recessions and during the slow and lagging recovery from the last deep recession.

If such a standby program had been on the books during the deep 1974–75 recession, job creation stimulus would have begun to work at the end of 1974, and some of the sharp rise in joblessness—to 9 percent by mid-1975—could have been blunted.

Moreover, the lessons learned under round I and the improvements made in round II clearly demonstrate that:

(1) Public works jobs programs can start up quickly.

(2) Projects could be small and of short duration.

(3) The funds could be targeted to the areas that are most in need.

(4) There continues to be a huge backlog in a wide range of facilities that are essential and welcome additions to the Nation's capital stock.

Many local governments continue to experience economic stagnation and decline. These communities were particularly hard hit by the last recession and have still not recovered.

In February 1979, for example, when the national average rate of unemployment was 5.7 percent, 56 metropolitan areas recorded unemployment rates of over 7 percent, and 19 of these metropolitan areas had unemployment rates of 8.5 percent or more.

I would like to add at this point, Mr. Chairman, that the rate of unemployment in the skilled building trades is generally approximately double that of the populous and industry generally.

The importance of promoting continued economic recovery of such distressed communities, while protecting them against recessions cannot be denied. The economic stagnation or deterioration of these areas brings with it underutilization and abandonment of private and public structures, a decline in the value of investments, and a dwinding tax base. Continued unemployment and underemployment breeds frustration, anger, and despair, and gives rise to crime, drug addiction, and other antisocial behavior. It promotes an unliveable environment, leads to further economic deterioration and added barriers to investment.

Let me cite one more piece of evidence of need for an expanded economic development effort and a triggered standby program. Appended to this statement (table II) is data showing the dismal record of State and local public construction over the past 10 years generally, as well as the impact of recession on such investments.

According to the Commerce Department, in 8 out of the past 10 years, the real volume of outlays for State and local public construction declined. In 1978, State and local governments spent $35.7 billion on public construction, including Federal aid. After adjusting for inflation, this represents a rate 30 percent below 1969 levels. In real terms, on a per-person basis, these figures show that public construction represented $151 per capita in 1969, compared with only $99 last year.

As this committee knows, the AFL–CIO has a long and consistent history of support for programs which create jobs, meet the Nation's public investment needs, and target aid to the people in the areas where it is needed most. We have learned from experience that even when the economy is performing well, many parts of the Nation are left behind. When the economy is in trouble, conditions in these areas deteriorate and hardship and deprivation become even more acute.

By continuing and strengthening the basic development assistance programs and providing a mechanism to target additional help to such areas in the early stages of an economic downturn, longer-term economic progress can continue and the economy would receive needed job-creating, recession-fighting stimulus.

I would like, Mr. Chairman, to make one minor correction. On page 9 of the extended statement, in the third line, it states that the most recent figures were January 1979. That should be February 1979.

Senator BURDICK. Thank you very much.

You say on page 4:

Appended to this statement (Table II) is data showing the dismal record of State and local public construction over the past 10 years generally, as well as the impact

of recession on such investments. According to the Commerce Department, in 8 out of the past 10 years, the real volume of outlays for State and local public construction declined. After adjusting for inflation, this represents a rate 30 percent below 1969 levels. In real terms, on a per person basis, these figures show that public construction represented $151 per capita in 1969, compared with only $99 last year.

Are you aware that 30 States, approximately 30 States, in this Union asked for reduction of public spending by the Federal Government? Who is going to do this construction? The States and cities are allying behind this, and we have to balance the budget.

Mr. McGUIGAN. I am aware of that. When the Governors met and passed a resolution calling for a balanced budget, they were not entirely consistent in that they did not call for reduction of Federal contributions to the States. They didn't call for reduction of revenue sharing to States.

Senator BURDICK. That would naturally follow, wouldn't it, the amount of Federal assistance?

Mr. McGUIGAN. It didn't, as I recall the news story. It didn't actually follow. There was a debate on that very subject, and the debate was inconclusive.

Arnold, would you care to elaborate?

Mr. CANTOR. Yes. I think the Senator's point is very well taken. It should also be pointed out that the Federal budget deficit is in the range of $30 to $40 billion, and the Federal Government is putting out about $80 billion in grants in aid to State and local governments.

The actions on the part of the Governors, are rather confusing. I think it is a very strange way of operating. Added to this has to be taken into consideration what a number of the States are doing in what I call the proposition 13 mentality.

I, personally, think, and would hope, that members of this committee and other committees reject this as some kind of grandstanding. It makes absolutely no sense. We have very, very serious public and private investment needs. These needs will not be solved by constitutional conventions or statutes or legislation, such as a mandated balanced budget, proposition 13 and the like.

Senator BURDICK. It seems to be some when inconsistent. The State and local contribution for construction has been dropping all these times, and now apparently, somebody wants this to drop.

Mr. CANTOR. No, sir. The table includes Federal aid. I am sorry, we might be able to break the figures out. But the expenditure numbers in the table are the direct expenditures of the State and local governments and they include funds supplied from the Federal Government.

Senator BURDICK. On the first part of that, the dismal record of State and local public construction, the morning's papers has a story on our training programs. They suggest they have largely failed to provide training. This appears in the Washington Post in the business section. What is your comment about that, either one of you gentlemen.

Mr. SCHECHTER. Senator, in our statement we recommended modification in two sections of the proposed legislation to have a requirement that the criteria for selection and approval among applicants should include the degree of commitment by prospective employers that would be involved in employment of local residents,

and also to assess the capability for training of people that would be employed if the skills were not available in a local community.

Much of the failure of manpower programs has been due to the lack of this connection between training and jobs. It does no good to train people who then are sent out to look for jobs which may not exist.

Senator BURDICK. That is more or less the sense of the story, too.

Mr. MCGUIGAN. Just to add very slightly to that, I know that we always find the bad story; that is part of the news. We sometimes find some good ones. The AFL–CIO has had in operation for a numbers of years a so-called outreach program, which you probably have some familiarity with. The Operating Engineers, the Carpenters, a number of other unions in the building and construction trades have brought people in in preapprenticeship training programs, those who are not at the educational level for qualifying to go into an apprenticeship program. They have prepared them for entry into apprenticeship programs. They have helped them through the educational process, while working at jobs and earning incomes.

There are an awful lot of success stories. We would like to see more of them. We know there are some that are not successful, too. We have taken, over a period of almost 10 years, a major effort. We think that nothing is worse than holding out the promise of work, of a productive job, and have nothing at the end of the line.

So our unions have been involved. I wouldn't tell you they have been a hundred percent successful. But many of them have been very successful. I would be happy to give you some figures from our HRDI, Human Resources Development Institute, on what has happened with some of these programs in the AFL–CIO, and our people have gained employment as a result of the programs. I think it would be helpful.

Senator BURDICK. You are absolutely right. There have been some jobs produced by the training programs. But we have $15 billion in the current year. It doesn't make much sense to train when there are no jobs. There is some way we have to tailor this to where there is a possibility of employment. This article says $15 billion in the current fiscal year alone. I don't know whether that is correct or not.

Mr. MCGUIGAN. We know there are some problems in the manpower operation in the Department of Labor. I don't think it is any great secret around town. I hope some real efforts are being made to improve that operation.

Mr. CANTOR. I would also like to add on that point, one of the major problems facing the manpower programs were that they were originally designed as training and development programs. But then a serious recession came down the pike and a program established as a training program, mostly became an antirecession device. As the Senator well knows, there were an awful lot of problems in meshing those two roles.

Senator BURDICK. We created an LPW for one thing. By the way, getting to the LPW, you are calling for a standby LPW. I believe, in fact, of the many projects of LPW, only two are not completed at a time when the economy appears to be overheated. In other

words, they don't come into fruition until the economy is boiling. Then they might add to the problem.

Mr. McGUIGAN. I am sure that you have either had testimony or will have testimony from EDA. Our information from the EDA is that all of the funds that have been committed will be exhausted by the end of this year. This is why we think it is so important to have a standby program.

Mr. CANTOR. We do have some of our information in the full text of the statement, Senator. One of the points is under LPW Round II, the average project was under $500,000. Of the total 62½ percent of the projects were expected to be completed in less than 1 year, and the average duration was only 10 months.

Senator BURDICK. We have with us Senator Domenici. Do you wish to inquire?

Senator DOMENICI. Just a couple questions. I don't want to spend a lot of time at this point, Mr. Chairman.

But let me ask the witness that indicated there may have been some confusion of roles when the recession hit the jobs program. What were you talking about, CETA?

Mr. CANTOR. CETA and public service, I guess it is title II and title VI of CETA.

Senator DOMENICI. Do you think the CETA program would work better as simply an educational program as compared with trying to mesh it with jobs?

Mr. CANTOR. No, sir. What I am suggesting is that the program was originally devised as primarily a training program. Then with the recession, with the really severe impact that the recession had on local communities, you had all kinds of problems developing—there were examples where they were jockeying around programs in order to take advantage of the Federal funds. And it became a problem which, in my understanding, was substantially touched off by the 1973–75 recession.

I must confess I am not an expert on the CETA program, and I would certainly be happy to submit for the record our analysis of the Post story this morning, as well as the program.

Senator DOMENICI. You would like to analyze the 19 years of job programs and give us a little summary?

Mr. CANTOR. No, sir. If the Senator requests, I would be happy to do so.

Senator BURDICK. Are you requesting?

Senator DOMENICI. No, I don't think so.

Let me just ask you this: that article basically says if you went back to Lyndon Johnson's terms until this point in time, structural unemployment in the United States was a problem and is a growing problem; and that we have spent $85 billion—not public works—but training, and we haven't made a dent in that. Quite to the contrary, it is greater now than when we started.

Assume that is true—I don't know that it is totally true—but would you have an idea why that is so?

Mr. CANTOR. No. 1, I think we have had, in addition, a worsening of problems in the cities. We have had population shifts and changes. We have had public sector problems which required more and more just to keep pace in these programs. I keep coming back to that, but I must emphasize the impact of the recession generally.

Senator DOMENICI. Yesterday afternoon on the floor of the Senate, Senator Proxmire was delivering a speech on the budget. I am on the Budget Committee. He is going to cut the budget $40 billion and is going to balance it immediately. I mean, he is cutting it exactly the amount by which it is in deficit. So it will be balanced, and that will make everything rosey.

What he said was interesting in terms of your response about our having problems—and this statement is true. Sixty percent of the adult men and women in this country are presently under full-time employment, the highest percentage of the American population fully employed in its history—higher than the peak of the Second World War, when we were drafting people and putting them in shipyards and so forth. Sixty percent is higher than ever. So I think the question is even more relevant. With all the programs we have, why is structural unemployment higher when total employment is so high?

Mr. SCHECHTER. Senator, I believe we have never really made the effort to link up the skills that are needed and the job openings. We read the stories about where there are job openings and no people who can fill them. There has to be a closer identity of training and job openings. Furthermore, many of the hardcore unemployed are in the inner city. They have become accustomed to a spirit of defeat, and it may require more than job training. It requires a certain amount of, I say, "social coaching" to get people to be willing to report to work on time, to stick it out, not be afraid of the employment environment. And we have never made that complete effort. The training, very often, has been simply to train somebody.

Senator DOMENICI. Do you really think we could if we made the effort?

Mr. SCHECHTER. I think we have to try, otherwise we have hundreds of thousands of people who may never be capable of work. It is a great social loss to society as well as individual problems.

Senator DOMENICI. I don't think any country in the world has ever done it. I think we ought to try. I note the Soviet Union says they do it, but they more than draft you, they order you to a job. We don't even begin to move in that direction, and I am not suggesting we should.

But it appears to me to ask government to try to do this under a program is unrealistic. We are not smart enough to put such a program in place, are we?

Mr. SCHECHTER. I think we are smart enough. I think we have generally tended to shuck it off by going through the motions, and if we have training programs it sort of takes care of the problem temporarily because people are employed in training. In fact, during the recession period, there were some young people trained for several skills.

Senator DOMENICI. How long would we have to have a high rate of structurally unemployed youth for the American labor movement to concede we ought to put them into some kind of work force and not try to mold them into $8, $9, $10, $11 an hour jobs as part of the program?

Mr. SCHECHTER. I don't believe that the union starting wage rate in the trades is $8, $9, $10 an hour.

Senator DOMENICI. Whatever they are.

Mr. SCHECHTER. They are much lower. And we do have programs that Mr. McGuigan pointed out with the Human Resources Development Institute, which works with employers, and it has been very successful in molding training on the job, where people have been put into productive employment at livable wages, not the top wage. So we are not adverse to that, and we are willing to cooperate with others in doing so.

Senator DOMENICI. I saw that cooperation right at the end of last year. Basically, it was a new program and the ratio of moneys that you were willing to go for was something like $4 billion in accelerated public works and $150 million in one of the other experimental programs to try to put young people who are highly unemployed in a job.

Mr. SCHECHTER. Let me respond to public works employment and construction. It is true that up to about a decade ago there was discriminatory exclusion. But then there was a breakthrough, and in the last several years, about 20 percent of the apprentices in the construction trade——

Senator DOMENICI. Wait a minute, you don't understand or I am not explaining it clearly. I am not talking about discrimination. Let me give you a hypothetical and see if you even think that the labor unions of America would support this.

Let's start with a whole new program, and let's have 17-, 18-, 19- and 20-year-old, hard up, unemployed young people, and put them to work in public works jobs for the United States in each of the specific States, with a quota. Let's have them supervised by the public sector and go out and do public-type work in mountains, on the streets, on the roads and pay them substantially less than the trade wage that is paid to carpenters and plumbers and the like. Say they can only stay there a year and a half. Would the labor unions support such a program?

Mr. SCHECHTER. You speak of the trade wage, Senator. What do you mean, a starting wage or apprentice wage, which is far below it?

Senator DOMENICI. OK, pay them minimum wage, period.

Mr. SCHECHTER. We would want to see them paid starting wage.

Senator DOMENICI. Sure, which would be?

Mr. SCHECHTER. Which may run $4, $5 an hour.

Senator DOMENICI. I ask you why?

Mr. SCHECHTER. Because otherwise——

Senator DOMENICI. They take your jobs.

Mr. SCHECHTER. That is not true.

Also, I want to go back to this matter I started with a moment ago, which is not just a matter of discrimination. These were hardcore unemployed youths who were taken in and trained.

Senator DOMENICI. I said put them to work. You said trained.

Mr. SCHECHTER. Now those people are ready to work. Those people are ready to work.

Senator DOMENICI. Which ones?

Mr. SCHECHTER. The ones that were taken in as apprentices 3 years ago. They are trained. They are in the hiring halls waiting for jobs. Are we to say, "You fellows sit here while we take your kid brothers and put them to work"?

Senator DOMENICI. No, I say we ought not train any more in that way, because we are fooling them all. In my State we train hairdressers and bricklayers. In fact, we have one poverty area where we trained three generations of hairdressers, and there weren't any hairdressing jobs. So I say put those to work, but don't train them where there isn't a job.

Mr. SCHECHTER. I couldn't agree with you more. We don't want any training for skills which can't be employed.

Senator DOMENICI. Well, I am not sure. Let them get trained in trade schools where they would go as part of a matched educational system. We don't match that up one-for-one. Maybe they find a job and maybe they don't.

I am talking about hardcore unemployment—50 percent of the America's unemployment right now—and you all sit out and say "But pay them the starting wage if they are getting into our business because they are taking our jobs away." And we can't set up projects we can't afford, so we don't do anything. We send them to a training school.

Mr. SCHECHTER. Senator, when it comes to the cost of a project, which I suppose is what you are referring to, I have not heard the suggestion, for example, that we ask the people who supply lumber or cement to cut the price which they would charge for that project. And they have been doing very well from the reports I have read recently.

Senator DOMENICI. Surely.

Mr. SCHECHTER. So I don't see why labor is asked to bear the brunt of trying to keep down the cost of the project.

Senator DOMENICI. No, I didn't say that. In fact, I believe the most complimentary, decent, proper thing that the unions could do is to come forth with a program and say, "You put $2 billion in accelerated public works and make sure all the rules of the game are followed on union contracts, whatever they are, for those tradesmen. You do that, Congress, and we will agree to build a public works program for hardcore unemployed youth. We will stay out of unionizing them for 1 year, 1½ years, and get them somewhere where they are going to work." That is the kind of thing I am saying. To say no to it on the basis that we are taking away your jobs is going to soon let Americans understand that, while you say you are for employment, some Americans are going to say you are against youth being employed. They are already beginning to say that now.

Mr. SCHECHTER. I believe there would be a negotiation that could be worked out, a ratio of, let's say, trainers and supervisors to what we call preapprenticeship employment. There are programs of that sort that are now in operation in Milwaukee and Oklahoma City. And with negotiation to see that a ratio is established, it can be worked out elsewhere, too.

Senator DOMENICI. All I am saying is I don't know how many years of history we are going to need of heavy unemployment in youth and chronic in nature before someone will say we have have to find another way to put them to work. We have to see if they can't get out of where they are living and into a job, and to try to do that in a very sophisticated matching up this with that, something other than what we have been doing now which has never

worked. If you review those 19 years, you will find no real effort to match up.

Mr. SCHECHTER. Senator, my familiarity with the training is there was little effort to match. It was generally a matter of providing skills.

Senator DOMENICI. How do you match when there is unemployment in your ranks? How are we going to match in the trade ranks with more jobs and more skills?

Mr. SCHECHTER. There are skills in various areas which are lacking skilled jobs. This is the structural employment problem. And where people don't have the skills they can be trained. Industry is constantly expanding. There is always a need for certain skills. And if we have a more targeted training program linked to job creation, I think we could do it.

Senator DOMENICI. I supported that, and I thought we did that 2 years ago, and it turns out it wasn't done.

Mr. MCGUIGAN. I know the Senator supported it very strongly, and I know you expressed your strong support on this issue of getting the dollars and people and project together and doing the central things that could be done quickly.

Senator DOMENICI. You are absolutely right.

Mr. MCGUIGAN. I would like to point out, however, what we seem to be doing—and I don't think through any design particularly—in this conversation is limiting our discussion as though all we were talking about was a problem of local public works on public works programs generally run within a training program or an opportunity to bring people into the job market. As a child of the Depression, I understand what trying to break into that job market means. This isn't any sob story. But I have been out there when competition was very rough, as have many people, and not equipped with any high skills to enter the job market.

We have not talked, however, about what the other programs are that the AFL-CIO does support. First, I would like to make the observation that several years ago, when the issue of discrimination was being discussed almost daily in the Washington papers, particularly as regards the building trades, I spoke to one of my friends who headed up a local union and said, "Are you really discriminating? Why don't you talk to the press?"

He says, "Hell, yes, we are discriminating. We are discriminating against everybody. We are not taking anybody in. It doesn't matter whether you are white, black, Mexican or related to the business agent, we are not taking anybody in because we don't have jobs."

And if we don't have jobs, Senator, we don't take people; we don't invite people to compete for jobs that are nonexistent. This is the situation we have found ourselves in—in the building and construction trades in—too many recent years.

However, we have supported other programs. We have support ed the Youth Conservation Corps. We have supported that kind of program and maybe some of those programs that are now under discussion in the Post story, which I unfortunately didn't read. We probably supported those, too.

But what are the alternatives to supporting them? First, I would agree that the best thing that could happen to any individual is to give him the pride of having a job, earning his money and feeling

that he is contributing something to society. Because I think until he reaches that status in life, he can't be much of an asset to society.

But we are supporting him in one way or another, and I think sometimes the newspaper story overlooks that fact. We are supporting him if he is in prison; we are supporting him $8,000 to $12,000 a year or more. If we support him on welfare, it depends on the State how much it is.

But we agree with you, Senator, not necessarily in the approach that you will take, but in the idea that the unemployment of large numbers of people from ages 16 to 25 or 27 is probably the most crucial problem facing society in this country today. And we want to work with you and your committee and the Labor Committee and whatever committees we can to devise answers to this question. Because believe me, they are as much a burden on our minds and our tax resources as on anyone else's. But it is a problem that demands a solution, and I think all of us have to continue to address ourselves to it.

Senator DOMENICI. Let me ask you all a very tough question that I have had to address a couple times, and I am not sure how I feel, but it worries me, and it is an urban problem. If you are going to train unemployed youth from a ghetto, do you build into a program the prospect of moving that youth away from that ghetto to a job somewhere else or not?

Mr. SCHECHTER. I believe as long as there can be access to the employment, the employment doesn't have to be in the ghetto. I happen to have grown up in New York City. I lived in one of the outer boroughs, Bronx. My father and all my relatives lived nearby. They would take the subway or el every morning and ride for an hour to get to work. There is nothing wrong with having the place of employment an hour away. But still there has to be that bringing together of a person and the job.

Senator DOMENICI. Let me just be more specific. What if we had a training program for long-term unemployed youth in a ghetto area using the vocational education system, and we were now going to match training with available jobs and we found that there were none in the immediate area of any consequence for those youth. So we begin matching them with jobs 200, 300, 400, 500 miles away in other cities, and we ask that ghetto vocational education system to match them up. We ask if they will move to the job when we finish training them, and we supply the resources to relocate them. How does that strike you in terms of the system?

Mr. SCHECHTER. Senator, there is another consideration. I think if it can't be done any other way, I would go that way. But the other consideration is what happens to the community which may have been declining in the first instance? That is part of the reason why these people can't be employed in the area. So we do support the types of programs which would help keep employment, and perhaps expand employment, in some of the areas which have been experiencing unemployment. We think this is also socially and economically better for the community as a whole, instead of duplicating the facilities elsewhere. So I would give priority to the possibility of employing them in the metropolitan area where they live, including an amount for development, such as under the

46-633 O - 79 -- 15

legislation we are considering today. But if that cannot be done, then I would say yes, employ the people elsewhere.

Senator DOMENICI. I want to close by saying I think what we have basically done in trying to build back urban decaying areas is go in with public improvement, that is building new sidewalks, new streets, and in urban renewal areas building new public housing. We then conclude we have rebuilt this area. Once we have built that, the jobs are gone. If this is the approach, it appears to me we are better off to try to find jobs elsewhere for our youth. If somebody has a way of building back private sector jobs in the area, we ought to do it. But I don't think anyone knows how to do that at this point.

Mr. MCGUIGAN. Senator, in New York recently, in the Fulton Street area, I am told that they have built a shopping mall. They do intend to employ practically all local residents. This is EDA money.

I would bear in mind, as you know, that the appropriation for economic development has been slightly more than half of the authorization of the last several years.

Senator BURDICK. But it has been substantially greater than 3 or 4 years ago.

Mr. MCGUIGAN. Substantially, but about half the authorization.

I am not suggesting that the Fulton Street market area is going to solve the problems of New York City. But I think we have to take steps that are available to us, and I think that some of these steps that we haven't tried, as you have said, are available. They came to us with some discussion, as I am sure they have with Members of Congress, about this would require some new regulation of EDA because the antipiracy provision had never been considered in relation to retail, and what was our feeling about that. We are currently giving that some consideration. We don't see, for instance, that laying off people in retailing New York City and laying off people in retailing New Mexico, is going to be related. So we think possibly they need a different regulation to do that in New York City or whatever the town may be. They also did a rather extensive renovation on the Brooklyn Navy Yard, as you will recall, a few years ago that got some very bad publicity, and later on got excellent publicity.

I am not suggesting that all of the innovative ideas have been tried, and we have got to keep working on them.

Senator DOMENICI. Thank you, Mr. Chairman.

Senator BURDICK. We seem to agree we shouldn't train when there aren't jobs for the trainees. But how do you enforce it, that is my question? A young man wants to train for a particular job where he lives in Detroit. Someone certifies there is no opening in Detroit, but there may be an opening in San Francisco. Just how do you regulate this, if you have a certification there is no training permitted for this area because there is no shortage?

Mr. SCHECHTER. I am not sure we can fit that in our society, quite candidly. We can do it in a time of national emergency. We can tell people where to work and what jobs they can work, when they have to go to work. But we can't make them work very hard when they get there if they don't like the job.

Senator BURDICK. If you gentlemen think we are not going to have to answer this with our colleagues, you are mistaken, because we are.

Mr. SCHECHTER. Senator, much of the big industry that grew in this country did train people to work in plants. The early part of this century when large steel plants were building up, they even had agents in Europe that were attracting people in southeastern European countries, people who didn't know the language, they were brought over and they were trained to work in the steel plants, which was a fairly skilled operation. We have had training of other sorts by employers who recruit people and train them to work in the plants.

What we were saying this morning, when EDA is going to give out funds for an economic development project in an area, it is going to take some time, very often, to complete the facility that is going to employ people. If the skills are not available there, people can be trained for those jobs that will be available while the facility is being created. It can be done with closer coordination with Labor Department training programs, instead of having those jobs created and then the man has to go elsewhere to look for his employees. There should be that type of coordination, at least under the programs which are supported by the Government.

Senator DOMENICI. Could I ask one general question then?

Senator BURDICK. Sure.

Senator DOMENICI. Thank you, Mr. Chairman.

Under the legislation would you expect that somebody would attempt to arrive at their conclusion as to why there is a lack of growth and development and employment in an area before we went forth with a program?

Mr. SCHECHTER. I believe there is a requirement for an economic development plan, an overall economic development plan, under the EDA program where they are supposed to identify the areas where they could fill in to have growth. A very primary example, if there are a number of bakeries in an area and there is nobody manufacturing pie tins in the area, that could be identified, and somebody else could come in and say, "We want funds for a pie tin factory."

Senator DOMENICI. So you don't assume we are just going to build infrastructure things, or go in and say, well, we need a McDonald's here, but nobody is building a base to support McDonald's.

Mr. SCHECHTER. No; infrastructure is necessary, but by itself it is not enough. So I would agree with you we don't just build infrastructure and depend upon that to evolve into some thing else.

Senator DOMENICI. Thank you, Mr. Chairman.

Senator BURDICK. Thank you, gentlemen.

Our next witness is Prof. David Birch from MIT program on neighborhood and regional change, Cambridge, Mass.

STATEMENT OF DAVID L. BIRCH, PROFESSOR, MIT PROGRAM ON NEIGHBORHOOD AND REGIONAL CHANGE, CAMBRIDGE, MASS.

Mr. BIRCH. Mr. Chairman, I submitted a report to the committee. I am just going to talk less formally about what is in that report. (See p. 315.)

For a number of years, MIT's program on urban renewal and change has been interested in explaining our employment changes in the metropolitan area. I thought I would talk about that process for a while and comment on the bill with respect to the process we have been observing.

Unlike most groups, we decided it was essential to build from the ground up, from the individual firm rather than looking at aggregate numbers. Through this we have been building what I would like to refer to as an economic microscope. It presently consists of 5.6 million business establishments, and a system for establishing what effects these businesses have on different places.

The 5.6 million establishments represent about 82 percent of all private sector employment. Our 80-percent sampling has more or less the same distribution as the total corporate population. Our coverage is quite high except in the service sector. We don't have the doctors and lawyers and hospitals and schools and those kinds of things.

For each establishment we know for five different points in time—that is, the years 1969, 1972, 1974, and 1976—information on employment, sales, affiliation, whether it is an independent or branch of a company; how long it has been in business; what kind of business it is in; and its locations down to the street address.

By comparing the industry establishment over time, we can see how it is changing; and by adding them, we can see changes taking place in whole neighborhoods of our cities.

There are six ways that the activities of a firm can affect the area of jobs. Starting on the gain side, it can expand or move in; on the loss side, it can go out of business—we call that a death—or it can lose by contraction or moving out.

As we began to look at the relative magnitude of these processes, we found virtually no firm migrates in the sense of hiring a moving vehicle, closing their business, and taking it elsewhere.

Senator DOMENICI. Birth, death, and what?

Mr. BIRCH. Migration. On the gain side, we have birth, expansion, and migration; and death, contractions, and outmigration on the loss side. Those are sort of the six ways.

A few firms did migrate in the fifties and early sixties in the show industry and textiles, and so forth. Very few have done so since. When they do occur, the moves are highly publicized in the press, but they have a relatively insignificant effect on the job base.

The second thing we found, the job losses are high, and interestingly enough, about the same everywhere. If you sum up the loss—deaths and contractions—in the firm, you find it is about 8 percent of the job base each year wherever you are. That is almost half of the entire job base every 5 years.

The loss rate is somewhat sensitive to the business cycle. It varies, though not very much. It might vary a percentage one way

or the other. In other words, in a recession period, the loss rate might go up 1 percent; in an expansion period, it might decrease 1 percent.

So all that varies is in the net change as a whole, who will take up the slack, who is going to replace the percent losses each year, who will reseed the forest by opening a new firm or expanding an existing one?

We found out some very interesting things about who these job generators are. To a great extent, they are small. To check on that, we assembled data on individual branches, subsidiaries, and put them into the corporate families to which they belong. We then divided the families into a single entity. We added up the gains and subtracted the losses to see what data we had.

Senator DOMENICI. Mr. Chairman, I am having trouble either hearing or following the witness. Are you, Mr. Chairman?

Maybe you are talking about unemployment in such unusual words that I can't follow. I am very interested though, because I think you are right on. I think what you are talking about is the thing, but I can't follow you.

Could you tell me what your ultimate goal is in this experiment, and start that way up?

Mr. BIRCH. What I am trying to do is I am trying to describe the process by which jobs are generated. Then I would like to tie that briefly back to the bill before you and relate it to that bill.

But the first thing I am trying to do is, based on a sample of about 80 percent of all the business in the United States, try to describe as concisely as I can, given the time limitation, the process by which jobs are generated, because we are really looking at this in microscopic terms for the first time.

Senator DOMENICI. At what point in history would you have accomplished these relationships?

Mr. BIRCH. We have looked at 1969, 1972, 1974, and 1976. And we know information about each establishment for each of those periods. By comparing them over time, we can see how each establishment is changing. So we can look at change on an establishment-by-establishment basis.

Senator DOMENICI. Do you follow current trends in terms of employment versus productivity since 1976?

Mr. BIRCH. We are in the process of looking at 1978 data. So the farthest we can go is to 1976.

Senator DOMENICI. The reason why I ask is because 1977 and 1978 have revealed a phenomenon that has never existed. That is, it seems we are putting more people to work with less productivity. So it seems one might conclude that that may be changing all the macroequations of unemployment itself. Maybe that is not terribly relevant to what you have to say.

Mr. BIRCH. It may change the macro. It might be explained by some of the things we are observing in the micro.

Nationally, in spite of their high death rate, corporations with 20 or fewer employees generated two-thirds of all net new jobs in the country during this period. Independent, unaffiliated firms with under 20 employees generated over half of the jobs. And in the Northeast, firms with 20 or fewer employees generated 177 percent of all the net new jobs; large corporations lost 77 percent. So for

every 100 jobs, small businesses generated 177 and large businesses lost 77.

Senator DOMENICI. Minus 20, it was less than two-thirds.

Mr. BIRCH. Yes, jobs generated.

The most likely job producers are firms that have declined the most in the recent past, but survived. In other words, they went downhill for 5 years, but held in there. They have the higher odds of generating new jobs in the future.

On the other side, regainers have higher odds of declining in the future than stable firms. The ones that haven't done much of anything recently have the highest cause of dying.

Constructing the economic development which deals with literally small, young, volatile firms is difficult enough. But to make matters more complicated, we discovered there is a great deal of cross-regional variation. When we built our corporate families, we kept track of where the headquarters of each branch is located. We found over 70 percent of all new jobs for manufacturing in the South are controlled by the North. Nonmanufacturers may not be moving in the physical moving van sense, but they are certainly deploying by opening branches elsewhere.

The pattern is just the opposite in the growing service sector. Southerners dominate the large southern market, and interestingly, they create more service jobs in the North through the branch operation in the North and West. So while declining in controlling manufacturing, southerners are taking over the growing service sector.

Senator DOMENICI. That is because of Holiday Inns.

Mr. BIRCH. And a lot of insurance companies, banks, and hotels and other establishments in the growing service sector.

In general, no region controls more than half its own destiny when it comes to branches.

When you put all the pieces of the puzzle together, the job-generation process seems more difficult to manage than we initially thought. Perhaps the strongest advice I can give is negative rather than positive in nature—what to avoid.

Don't spend much time, for example, worrying about migration of firms from one place to another. It hasn't had that much of an effect. Don't focus on stemming losses. Since losses are pretty much the same everywhere, they are not very likely to be sensitive to policy. Don't look to large corporations.

Senator DOMENICI. What are losses again?

Mr. BIRCH. Losses is the sum of death and contraction. I guess what I would be suggesting is that summing the total losses caused by firms laying off people or dying is fairly constant. The Houston rate is not substantially different from Buffalo or Schenectady or Cleveland; nor are the suburban loss rates particularly greater than urban loss rates.

Senator DOMENICI. Then does one conclude in the State of New York, that we ought not be concerned about it?

Mr. BIRCH. Not at all. Counterbalancing the losses are replacement jobs, what I referred to as reseeding of the forest, and there is a big variation in that reseeding. So New York, in a sense, has many fewer replacements than losses, whereas your State and others have more replacements. An analogy would be a bathtub

hose coming in and going out, and the coming in varies. If you are going to try to influence the overall level in the tub, I guess I am suggesting don't worry so much about the flow out, but the flow in. There is a great deal of variability in the flow in, but not flow out.

Senator DOMENICI. So the flow in might represent new growth in a more conventional sense. What you are saying is there is not an equal distribution there.

Mr. BIRCH. There is an unequal distribution of new growth, but a relatively constant distribution of loss. It doesn't seem to be very sensitive to space amount. But the rate of replacement of inflow into the tub is very sensitive to location and explains most of the variation and change. That bathtub is the best analogy that I can come up with.

Senator DOMENICI. Thank you.

Mr. BIRCH. I guess don't assume that any particular area controls all or even most of its own jobs when it comes to branch distribution.

What we are left with is the problem of how to influence the millions of volatile firms that do generate most of the jobs. They are a very difficult group to reach. Banks are not overly fond of them. They look like risky investments to bankers. It is difficult and very expensive to reach them on a one-to-one basis with a government bureaucracy of some kind. There are literally millions of them.

Furthermore, it is not clear what to offer them other than capital. Many of the fastest growing places in the United States to which these firms are flocking are paying higher than average wages and higher wages generally. Expense may have very little effect. Several studies have suggested that localities are not that important either.

In an effort to figure out what is going on, Deborah Matz of our own Joint Economic Committee recently interviewed several businesses. She found quality-of-life considerations were just as important, if not more important, than economics in influencing the firm's location. We find a similar result in our own interviews, working on a much smaller scale. The problem of encouraging economic growth in selected areas thus goes well beyond offering economic incentives to those firms in those areas. Firms have already indicated verbally and with their feet they will tolerate higher cost to escape unpleasant surroundings. We must also recognize the surroundings and the needs of individual firms if we are to influence the economic life of that place.

As I examine the bill before you in light of our findings, I like its flexibility.

Senator DOMENICI. Let me ask you, are you going to tell us what generally are considered to be unpleasant surroundings, because it is certainly not just the absence of roads and schools and everything else?

Mr. BIRCH. It is schools. The finding that the Joint Economic Committee came up with had to do with crime level, the adequacy of public facilities, the adequacy of public service, quality of the schools, decay of cultural attraction. But the top of their list was, I hate to say, city government attitudes toward business, in some cases the antibusiness attitude of the city that is reflected in the

relationship between the business and the city government. Those are the things that came to the top of her list, and I guess would be at the top of our list.

Senator DOMENICI. Has city government attitude been broken down any further?

Mr. BIRCH. I think one of the major factors in Deborah Matz' study was the extent of regulation and the necessity of filling out of many forms, many processes, many inspectors; a constant process of regulation was at the top of the list of what businesses found objectionable in cities, just a constant involvement of government in their operations, which they found very objectionable.

Senator DOMENICI. Could you cite me some references I could read about that?

Mr. BIRCH. Yes. This is a study prepared by the Joint Economic Committee by Deborah Matz. I believe it was released on January 11 or 12 this year, and it doesn't seem to have a particular number on it.

Senator DOMENICI. I have difficulty understanding how it is regulation by city, because I think most regulation comes from the Federal Government. The cities just enforce this thing, so I don't know if that is the attitudinal form.

Mr. BIRCH. There are a tremendous number of local ordinances and regulations that must be dealt with in trying to do business in the city, going all the way from the building inspector, or code inspector, to sign inspector. There is a very long list of people who are involved in the business operating in a city. And one of the main findings that came out in Deborah's study was the extent to which that constant involvement of the public sector in the functioning of business was objectionable, as distinct from, say, the State of New Hampshire which does not spend a great deal of time involving itself in the affairs of business.

Regarding the bill, I like its flexibility. I think there are multiple systems that the bill triggers, and I think multiple options. I like the recognition of the need for capital, particularly working capital. I like the targeting concept of focusing on areas that need help rather than using the shotgun approach.

I am a little hesitant about a couple of aspects of the bill though. First, the bill doesn't fully recognize, in my mind, the role that small business plays in job generation. There is no explicit designation for small business in it. The bill is still heavily focused on real estate and buildings and equipment. These are not the first things that most small businesses need.

Second, the bill doesn't really fully address what we in the Joint Economic Committee are finding are the main problems faced by urban areas, which have to do with the quality of the working environment and the city. Cheap viable capital, while very helpful, may not itself be enough to get those businesses in the urban areas.

With that perplexing thought, I was going to end and entertain questions. I have already entertained some, so I will continue our discussion.

Senator BURDICK. Senator Domenici, do you have more questions?

Senator DOMENICI. Let me ask you if your study is relevant—and I assume you feel it is very relevant to what is happening in city growth and development—then you have told us that you think the bill is good because it is flexible. But if you had to itemize, based upon your study, the kind of things you found, what else would you recommend? For instance, I would have concluded an economic bill of this type should have a very strong provision for venture and equity capital to high-risk firms, and you have just concluded that should or shouldn't be?

Mr. BIRCH. That it should. That it should be more oriented in that direction. Actually, the language of the bill is quite explicit in that regard. I have been reading the bill over as carefully as I can, and it recognizes the importance of small business and venture capital in the job creation process. It is just the stipulations of the bill do not make any suggestions as to what the ratios or balances should be. I guess my fear would be that most of the funds might end up in the large corporations to build bigger buildings and acquire bigger equipment, because the bill tends to be oriented toward building and real estate.

I basically would agree. I would like to see more easy working capital and things that the service sector firms need, since they are providing most of the replacement jobs in cities, and less orientation toward manufacturing equipment and such, because I don't think that is where most of the jobs are being generated.

Senator DOMENICI. So while you like the flexibility, you would like to have some flexible distribution I guess.

Mr. BIRCH. Yes, I like the flexibility in the sense there are many different triggering criteria so it can become available under many different circumstances, rather than just a national economic crisis. You can have a local pocket that can be designated and become available. And there are many instruments around in terms of loan guarantees and interest subsidies, and there are many options that the Administrator of EDA would have available to him or her.

My problems are seeing that in fact the people generating most of the jobs become the beneficiaries of those instruments. And it is clear from the language of the bill that is intended. It isn't clear that will happen or that there are any stipulations in the bill to make that happen.

Senator DOMENICI. May I ask one other question? Assume we did have a recession, it turned down, and it lasted not as long as the last one, but let's say a year at most. Assume we were just starting up one of this kind of program. Would we handle it a little differently during the recession or not?

Mr. BIRCH. The loss rate goes up somewhat in a recession, but not that much. The replacement rate tends to fall off during a recession. So I guess I would be inclined to have some sort of a triggering mechanism that would cut in more strongly during a recession than otherwise. Small businesses tend to be particularly hit during a recession, because the capital dries up for marketing in small business. Therefore, the first two groups that get hit in a recession are the housing industry and the small business sector.

Senator DOMENICI. Thank you.

Senator BURDICK. We do have a time problem. We have a vote in 5 minutes and then we go into session. Unless someone has a 5-minute presentation, we will recess until 1:30 this afternoon.

[Whereupon, at 11:30 a.m., the subcommittee recessed, to reconvene at 1:30 p.m., the same day.]

AFTER RECESS

[The subcommittee reconvened at 1:40 p.m., Hon. Quentin N. Burdick (chairman of the subcommittee) presiding.]

Senator BURDICK. Our next witness will be Dr. George Peterson, director of finance for the Urban Institute.

STATEMENT OF GEORGE E. PETERSON, DIRECTOR OF FINANCE, URBAN INSTITUTE, WASHINGTON, D.C.

Mr. PETERSON. Thank you, Mr. Chairman.

There are two main points I wish to make in my testimony. The first, that title II—and it is title II I will be concentrating on—gives, in my opinion, excessive attention to the leftovers of the battle against structural unemployment; and fails to adopt a standby countercyclical authority that may be necessary shortly, and, more important, as a piece of permanent legislation. Second, that the bill fails to recognize the need for long-term public works investment in renovation of basic infrastructure facilities and, in my opinion, should be modified to allow a set-aside for renovation of basic infrastructure.

Title II spreads a first-year authorization of $595 million among an impressive variety of activities. Indeed, title II at points reads like a legislative reclamation project, with past administration proposals not approved by Congress in their original form reappearing in greatly scaled down form. There is the 15-percent grant to support private investment taken 64 from the old Development Bank. There is the authorization to finance public works projects that will provide immediate useful work for the disadvantaged and unemployed—which combines countercyclical local public works and labor-intensive public works, but at a total funding ceiling of less than $30 million for the entire Nation.

In my opinion, there are two judgments about that mix of activity.

First, title II attempts to do too much, to pursue too many different purposes, with its limited resources. The proper role for job-creating public works is as a countercyclical device. With the possibility of recession looming on the horizon, I believe Congress would be better advised to adopt a standby emergency public works authority, to be triggered automatically by future unemployment rates, than to put into effect today a labor-intensive public works program in miniature. With a $30 million ceiling, and forced to compete for funds with private investment subsidies on a project-by-project basis, job-creating public works cannot be described as a serious attack on structural unemployment.

To my mind, a better way to make use of these funds would be to have each locality inventory the labor-intensive maintenance and renovation activities it could put into effect during a national countercyclical program. This would make possible both a quicker

injection of funds into the economy when 65 they are needed and the accomplishment of permanently useful capital improvements by having inventory beforehand, the most basic inventory requirement.

More fundamentally, the Public Works Act, as now drafted, carries an excessively narrow conception of the purpose of public works and its linkage with economic development.

The award factors spelled out for the Secretary of Commerce in title II all emphasize the ability of a public works project to generate direct employment opportunities and to leverage immediately identifiable private investment.

I do not want to minimize the important of these results, but there is another purpose to public works and another link to economic development. The underlying infrastructure of an area is essential to its long-term ability to compete for economic growth of any kind. The deterioration of streets, bridges, water systems, and sewer systems lessens the attractiveness of an area for jobs and people alike, and if allowed to progress far enough this deterioration damages almost irreversibly the capacity to service private economic activity.

We at the Urban Institute are carrying out studies for both the Department of Housing and Urban Development and the Depart ment of Commerce on the condition of urban capital facilities. It is our intention to examine the conditions of capital stock in major urban areas, both to show how they can change over time and the degree of concentration of capital stock. I would be glad to make those studies available to the committee. Generally, they show widespread deterioration of performance of capital stock in older urban areas for each of the basic systems we have been examining.

The threat that general capital stock deterioration poses to long-term economic development deserves more recognition than it receives in this legislation—especially if the purpose is to help hard-pressed areas preserve jobs during the next decade and not just 1980.

Let me give you one or two examples of the kind of difficulties in infrastructure that our study has turned up in connection with economic development.

The city of Cleveland, where we did one of our intensive case studies, it is one thing for that city to propose as it did in its application for urban development action grant to try to repair a single major bridge in order to attract Standard Oil of Ohio to locate its headquarters in the city. But the scale of bridge deterioration in Cleveland far surpasses this case-by-case approach to repair. According to the most recent federally mandated survey of bridges on the Federal aid system, about 30 percent of the 163 bridges for which the city of Cleveland has full maintenance responsibility are in intolerable or unsatisfactory condition, requiring replacement or major repair and rehabilitation. The city estimates that it would cost at least $150 million to bring all deficient bridges up to standard. One bridge alone, which was closed in 1978, will cost $30 million to replace. What the city requires is a systematic strategy for bridge repair, not a case-by-case fixing up when and where individual firms want to locate.

Problems of comparable magnitude face bridge operations in Pittsburgh, Detroit, Buffalo, and several other cities.

The backlog of street repairs in many places is still larger and a still more powerful impediment to long-term development. At the end of 1978, 163 miles, or about 22 percent, of Buffalo's streets required immediate work at an estimated cost of $125 million. Much of this work is backlogged from prior years because of Buffalo's inability to issue bonds and because of cutbacks in maintenance spending forced by budget deficits. Buffalo did not resurface any streets in 1977 and no significant amount of resurfacing has been done since 1975. Reconstruction activities and new construction have been virtually nonexistent during the last 5 years.

Water distribution, like sewer collection, is a system that tends to be taken for granted until it breaks down. In Cleveland, a water treatment plant which treats water from Lake Erie is in imminent danger of collapse. Structural components of the plant have been severely stressed by settling, leading to mechanical failures, leaks, and partial collapse of the roof. A judge recently found the state of maintenance and repair in Cleveland's water system to be so poor that he ordered the system taken out of the hands of the city, on the grounds that the future ability to deliver water to customers was jeopardized. The costs involved in water replacement investment are staggering. Replacement of this single plant in Cleveland will cost $141 million.

I will not belabor this point with further examples. Our studies show, I believe, that the country's older capital plant needs renovation and that carrying out this renovation will be a costly job, beyond the reasonable capacity of some local governments to finance on their own.

The Federal Government has made in the last few years several important changes in the Federal aid programs for functional areas, which assist somewhat this job of renovation. But there remains, in my opinion, the need to allow localities flexibility in designing capital renovation plans to improve their long-term development prospects.

It is not enough to give Federal assistance to finance one-time construction outlays. One of the clearest conclusions to emerge from out studies is the systematic relationship between today's infrastructure and the maintenance behavior and replacement investment over the last 20 to 30 years. It is a cumulative problem. In localities where basic infrastructure systems are operated by independent authorities, where pricing systems allow recovery of full costs with set-asides for capital replacement, conditions are far superior to localities where water and sewer services are priced below cost, with no funds reserved for maintenance and capital replacement.

In my opinion, the public works bill should set aside a portion of its funding authorization for basic capital renovation strategies that cities or other localities could put forward as a means of retaining and strengthening job development over the genuinely long term. I think it is the right vehicle for doing so, because just as the legislation now requires grant applicants to make a positive case for the use of private development subsidies, it should require them to offer a permanent plant to make use of more basic infra-

structure grants. A locality would have to demonstrate that such investment was essential to job preservation over two or three decades, and present a pricing, maintenance, and capital replacement plan that guaranteed the future upkeep of the capital facilities. For that reason I think this project-by-project approval is superior to the legislation being introduced in the House recently that would have the Federal Government subsidy for long-term financing of infrastructure.

To summarize, the systematic renovation of basic capital stock is a priority claim for older areas, if they intend to compete for economic development in the future. It is not unreasonable, in my judgment, to commit for this purpose an amount similar to that now found in title II—$500 million to $600 million a year—to be financed, in necessary, by cutting back elsewhere in this bill, or combining it with an accelerated public works program, the kind that was discussed this morning.

I hope that the committee will not lose sight of the fact that community investment decision made today have as great, or greater, impact on the ability of cities to compete for jobs 20 years in the future as they do for their ability to attract jobs today, and that you will be able to find a role for those basic capital renovations.

Thank you.

Senator BURDICK. Senator Domenici.

Senator DOMENICI. Are you suggesting that systematic analysis of capital needs as part of the application with the idea that the application will provide a Federal source of money or are you suggesting that there will be a local commitment to provide the infrastructure need?

Mr. PETERSON. Both. Basic financing clearly will have to come from local commitment and raised resources. I am suggesting that there be a dedication of amount—I suggested roughly a $500 million a year special Federal funding—that would support basic capital renovation.

Senator DOMENICI. Do you think we have other programs that are directed at capital improvements of an urban type that maybe ought to be redirected into this kind of bill, rather than provide another half billion a year for the same kind of things? We have water and sewer funds, between $3½ billion and $4½ billion a year. We have a highway fund, which has an urban system. It is not the greatest, but it is a lot of millions. Those two come to my head. There are community development block grants. They are on the downswing, but not for big cities. Why do we need another? Why can't we use those?

Mr. PETERSON. I think that is an obvious place to raise some questions. There are two questions. One is do we need it though it can be taken out? The second question is whether we need a different idea. And I think yes; we do need something beyond the functional area grants, which are quite restrictive in their applications, something that requires ingenuity on the part of local government and gives them the opportunity to identify their priority investment looking 20 years in the future as to what is most likely to sustain their desired economic development. I don't think we have given local governments in the Capital area enough choice. We have made great progress in tying the strings on operational

grants for current spending, but we have not followed that pattern in capital grants. In capital grants, the Federal Government is restricted by functional area.

Senator DOMENICI. You are an expert on urban life. I will preface this by saying I have been an advocate all my life of more authority for our cities, even as within their own States, and for more direct assistance rather than through the States. But how and why did the cities' capital improvements get in the state of disrepair they are, just as a general proposition?

Mr. PETERSON. A general answer to that is where they have serious problems is because of failure to carry out professional standards of replacement, investment, and maintenance. It is a very difficult thing for capital stock to compete with the other uses of government funds because the consequences of a breakdown are not immediately visible. They can be deferred to the next generation of taxpayers. If you have a choice of borrowing to install a new sewer system, the effect of which won't be observed for 15 years, or borrowing for single-family home mortgages, that is unfair political competition. That is biased competition.

I think the answer to the question is the local governments have not, by and large, pursued proper replacement and investment strategies in the past.

Senator DOMENICI. Once again, why do you think the National Government ought to do so?

Mr. PETERSON. I think the National Government ought to be involved for the following reason: The current state of deterioration means there are investment requirements far beyond the capacity of local government to finance in some instances. Our effective choice is allowing those systems to run down completely and abandon the area, or giving some kind of external assistance in order not to repeat the problems of the past. And I think that is the essential component of any Federal aid legislation. In order not to do that, any grant money should extract a commitment in return, as I mentioned in my testimony, a 20-year plan for pricing services at a reasonable cost so as to provide for maintenance and repair funds that will guarantee the situation won't be repeated—the construction of a plan for maintenance activities that would have to be adopted at the same time the Federal grant was received. I think the opportunity to review on a case-by-case basis of these projects would at the same time hold out the care and would have the sanction of approval that can reform some of the local behavior that has produced the local problem.

Senator DOMENICI. Do you really think there are a lot of American cities that would make a commitment of a 20-year capital improvement plan and its maintenance and live up to it?

Mr. PETERSON. I think yes, because what was required is a general, not specific, plan of that sort—placing sewer and water systems under an independent authority which has the legal authority to charge full prices. If that single step were done in half of the East and Northeast, we would take a larger step towards fewer maintenance behavior problems than any other innovation we could follow. It is the political pressure on the pricing system that forces these costs to be below cost, allows no money to be set aside for maintenance that has produced the problem. You are not talking

about a commitment in detail, but running these commitments on a businesslike basis, recognizing there are tremendous public investments.

Senator DOMENICI. I have no further questions, Mr. Chairman.

Senator BURDICK. You seem to think there is a Federal responsibility to every city in the Union.

Mr. PETERSON. Well, in a literal sense.

Senator BURDICK. Does that supersede the local responsibility?

Mr. PETERSON. No, absolutely not. The amount of money we are speaking of here, which is a $500 million flexible fund, has to be compared with well over $100 billion of local capital investment. So it is a very small amount of money at the margin, and we are not assuming Federal responsibility for funding these matters at all. My conception is a Federal grant for the localities willing to reform their practices in regards to the operation of capital facilities, giving them the opportunity to do it at reduced cost and hopefully use that as an example for State and local governments.

Senator BURDICK. You come in and ask us to raise that figure of $30 million to $500 million, and 30 States across the Nation have told us to cut down our spending. What do we do about that?

Mr. PETERSON. I am sorry, I can't resolve all the difficulties. I heard the observation made earlier. I think that is largely a grandstand play that I assume the Senate isn't going to respond to literally.

But within the capital grants area, I think there are moneys to be taken out of other capital grants or out of grant systems generally that, in my conception, the opportunity, the necessity, taking hold of this capital stock deterioration before it proceeds so far the capital stock loses economic value should have priority over alternative applications. And if there is a constriction on the total sum, there should be a readjustment of priorities.

Senator BURDICK. Senator Domenici touched on this. You said the basic funding areas are streets and highways, bridges, water distribution systems, sewer collection systems, and mass transit systems. We have a separate program in all those areas. Would you suggest that we join them in one program, or do we have two separate programs going on two separate tracks? What do you think about that?

Mr. PETERSON. No; I think the major Federal support programs in the future will continue to be the functional area support grants. I do think that it would be advisible to reduce some of the functional funding if that is necessary, if there are no other sources of finance, in order to allow some local judgment as to which areas are most crucial for economic development and for the general preservation of city life that would allow them some flexibility in making these investment choices, and in particular would be pinned to innovative proposals that local government would put forward as to how they were going to manage these assets. We have strategies now. One, we hand out money equally to State and local governments and allow them to do with it what they will; or second, we identify what capital investment needs are in the functional area and distribute the funds in relationship to EPA assessment of sewer plant treatment needs. What we don't offer is an opportunity for local initiative in overhauling the management of

capital assets. Since this problem is going to repeat no matter how much revenue there is unless there is a small role in the Federal grant system for encouraging proper management of assets once in place.

Senator BURDICK. I think there is certainly some local responsibility in keeping up the facilities that we helped build for them.

Mr. PETERSON. I think the record says, sir, they have not done a very good job of discharging that. I think exhortation is not going to be enough.

Senator BURDICK. Thank you.

Senator DOMENICI. Mr. Chairman, I have one more question.

I wonder if you would consider it to be a good exercise for us to say to a city that is going to receive some assistance here, that they ought to avail themselves of, and then categorize the grant programs that are urban in nature, and that have an impact on the quality of life in the area that needs improvement, and say to them if they have money coming from these areas, they have to direct them into this area. And then say to the State grants that are urban in nature, such as the water and sewer fund, that they would have to give priority to the city that we are helping with this kind of funding for capital improvements. As well, tell the States with reference to the urban street fund, that they would have to make an effort to use some of those funds in this kind of city. Would you just speak to that for a minute, and if it makes sense, would you as an expert give us kind of an inventory of related grant programs that might be attracted to a city that is looking for this kind of help and would help with the governmental capital structure that is needed?

Mr. PETERSON. Yes, I think that kind of required bundling is a very good idea in principle. There are, however, limits on how much leverage you can expect to insert with a $500 million program. I am not sure if I followed your question about the listing of specific programs, which these might be?

Senator DOMENICI. Yes.

Mr. PETERSON. In each of the capital functional areas, there is a very substantial and greatly grown bridge program which should be linked more closely to highway expenditures.

Senator DOMENICI. I don't mean do it now, you might do it for the record. Do you think the idea has merit, that we might condition the assistance provided in this approach to the utilization by applicant cities of other categorical grant programs that are generally helpful in accomplishing the goal?

Mr. PETERSON. Yes, they are going to make a positive case to you that this money is essential to the economic future. I think it is proper for you to ask of them in return that they have used their grant moneys to support this kind of activity and they have been going through the exercise locally.

A second point, I think you might encourage the State as well to redesign their capital grant program so as to support maintenance and operation of capital facilities once in place. There have been a few States which have taken steps in this direction.

Senator DOMENICI. Thank you, Mr. Chairman.

Senator BURDICK. If we are going to take care of the deterioriation that is taking place in the cities and could take place in the future, we are talking about a pretty big sum of money in the end.

Mr. PETERSON. Yes, indeed we are. I can only reiterate that the responsibility for the great majority of this investment is inevitably a local responsibility, it is a local investment. The Federal Government here is offering rather than a substantial source of funding really to try to stretch local ideas as to how their capital plan should be operated. In my conception, the next 10, 15 years, there will be a general recognition they can't operate on the size of the capital plan they have. They will begin to have to eliminate capital equipment. There will be a strong substitution for maintenance and upkeep and renovation of existing facilities against new construction. And this is already visible in capital budgets in places like Boston, New York, Buffalo—a recognition that they have invested too much in the past, they can't afford to operate what they have in place; they are going to have to cut back and retrench. But even to do that, they are going to need some assistance.

Senator BURDICK. If we are going to go through all the Buffalos and Clevelands and New Yorks, all the way down the line, in the next 15 years, $500 million isn't going to do it.

Mr. PETERSON. It is not going to do it financially. It may compile a record of innovative ways of coping with capital decline. Because there is, I think you pointed out, sir, there is no possibility the Federal Government can take on the responsibility of carrying on all this investment.

Senator BURDICK. Thank you for your testimony.

Our next witness will be Mr. Steven Hunter, chairman of Region Four Planning and Development Council, Summerville, W. Va.

STATEMENT OF J. STEVEN HUNTER, CHAIRMAN, REGION FOUR PLANNING AND DEVELOPMENT COUNCIL, SUMMERVILLE, W. VA. ACCOMPANIED BY LARRY BRADFORD, EXECUTIVE DIRECTOR AND CHRISTINA STEINMAN, NATIONAL ASSOCIATION OF REGIONAL COUNCILS

Mr. HUNTER. Thank you, Mr. Chairman.

It is a privilege to testify before the distinguished members of this subcommittee. I am J. Steven Hunter, chairman of the Region Four Planning and Development Council in Summerville, W. Va. With me are Larry Bradford, who is executive director of the Region Four Planning and Development Council, and Christina Steinman of the National Association of Regional Councils.

I am here to testify on behalf of the National Association of Regional Councils.

Let me begin with some introductory comments about our organization to make clear our point of view.

The National Association of Regional Councils, NARC, was initiated in 1967 to assist local government elected officials in organizing a rapidly growing number of regional councils.

Regional councils, for the most part, are substate districts of general purpose local governments which encompass a total regional community. They exist in both metropolitan and rural areas. Prime purposes of regional councils are to increase cooperative decision making and coordination among local and State govern-

46-633 O - 79 -- 16

ments; to review and comment on certain Federal grant applications; and to develop policies and programs to meet mutual problems and guide orderly development.

Over 650 such regional councils have been established to deal with areawide problems. There are approximately 218 regional councils that have been designated as economic development districts.

We believe that the main purpose of reauthorization of the Public Works and Economic Development Act legislation should be to examine and address the various economic development problems in all regions of the country, to expand those existing programs which have proven successful and make other programs more effective.

In dealing with economic development problems, the legislation must be sensitive to economic development problems in all areas of the country. Economic development, in essence, determines the welfare of both individuals and governments. Unemployment may be an economic development problem in New England. But at the same time, rapid growth in other regions present critical problems. Thus, we would hope that any eligible criteria established in this legislation be broadbased to address different types of distress, caused by economic development or the lack of it. We could not support legislation which concentrated Federal assistance in one part of the country. Nor could we support a policy which would target large metropolitan areas at the sake of rural areas.

At the same time, however, additional funding should be available to target those areas which are distressed or declining by using criteria such as outmigration, underemployment, unemployment or underutilization. The main emphasis in program support should be through direct Federal grants-in-aid conditioned on their consistency with national, State and regional economic development planning and programming.

In addition, we believe that the Federal Government must not only address those areas of economic distress, but must focus on those areas with healthy economies so that these economies can continue in that status. The small amount of money spent for such preventive medicine could save millions of tax dollars in the future.

Since EDA has not yet produced a printout of all the eligible and ineligible areas according to the new criteria established in S. 914, it is difficult to determine whether the criteria in the bill meet the needs of the economically distressed regions in the country.

Our main concern in S. 914 focuses on process; that is, offering recommendations that we believe will ensure a rational and coordinated approach to economic development through the intergovernmental process of Federal, State, substate districts and local governments. In this regard, I shall address the following points:

No. 1, NARC supports title I of S. 914 in which it would extend the planning process not only in economically distressed areas but in healthy economies as well, so that these economies remain healthy. However, we are concerned that authorization levels for planning will not meet this need. For fiscal year 1980, there is authorized more than $90 million for title I, but not more than $37 million could be used for planning. We strongly urge that for fiscal

years 1980–85, at least $90 million be used for title I without a limit being placed on planning funds.

No. 2, we support more performance requirements by EDA for economic development district activities in developing their overall economic development program, OEDP. The primary purpose of the OEDP is for local governments working through their district to realistically list priority projects to be funded by EDA. We have found, however, that some OEDP's are not realistic in terms of projected dollars, and EDA does not usually adhere to the OEDP when funding EDA projects. Thus, this planning process has not been as effective as it could be.

We would recommend that the OEDP be a multiyear program of 3 to 5 years, with an annual element setting forth, in realisitic terms, the funding available for priority projects in that year. EDA should also ensure a commitment not only of Federal funds, but State and local matching funds as well. If the annual element in the OEDP is adhered to by the State and local governments, EDA should at that time award a 10-percent bonus on project funds to local governments. In short, if we use the OEDP in this fashion, it will become the mechanism through which all the development resource decisions will be made.

NARC has found that this model has worked very successfully in the Department of Transportation's metropolitan planning program, where many of our metropolitan regional councils have been designated as metropolitan planning organizations for highway and urban transit funds.

No. 3, S. 914 should be amended to define the governing board composition of an economic development district. Governing bodies of any substate district should be in accordance with existing State or interlocal agreement. However, if the Secretary determines that important elements of the district's economy are not represented on such a governing body, the necessary elements must be brought to the decisionmaking process. In this case, the substate unit should have an advisory policy body representing such interests of the business and labor communities and minority interests.

EDA is planning to modify its present regulations to allow waivers to substate districts which have existing State law or interlocal agreement and cannot meet EDA's present regulatory requirement of one-third private sector representation. Many regional councils have existing State laws or interlocal agreements requiring 100 percent local elected officials on their governing boards. This has prevented them from being economic development districts. NARC's policy is that State laws and interlocal agreements should preclude any Federal agency requirements.

We are concerned, however, that the proposed EDA regulations will give too much discretion to the Secretary since waivers will be provided on a case-by-case basis. We oppose a waive-type policy and believe that the Federal law should be clear and allow all substate districts to become economic development districts without having to change their board composition. In summary on this point, we believe the Federal Government should respect the State and local policies which establish public agencies created to serve local government interests on regional matters.

No. 4, legislation should include an additional provision which assures coordination and consistency among local, substate, and State planning. NARC is concerned that title I authorizes EDA to make planning grants to local governments, but there is no requirement that the local government's plan be consistent with the planning done by the substate districts in that region. We do not believe that this is good Federal policy. It will allow each level of government to do its own planning without having to coordinate their activities.

No. 5, S. 914 should require that before any EDA grant, loan or loan guarantee is authorized, it must be consistent with any approved OEDP. While this language is incorporated in title II of the bill, it is not required in title III, the developing financing section. Without a consistency requirement, there is no assurance that the real development objectives of the area will be supported. More importantly, it dilutes the planning and investment strategy process which is the central policy component in the bill.

No. 6, NARC supports a provision which would provide an incentive or bonus grant to local governments which would encourage them to work together to develop a regional economic development strategy. Such a policy would recognize that substate regions in both urban and rural areas represent the real community in which the economic development takes place. This incentive grant approach would be similar to the present economic development district program. In many areas, especially in large metropolitan ones, they are not designated as EDA districts and, therefore, have no opportunity to do economic development planning on an areawide basis.

However, with limited tax dollars, especially in the current austere economic subsection, it becomes imperative that communities within a region work together to decide the best way to utilize limited Federal, State and local funds.

In order to encourage local governments to participate in a metropolitan investment strategies approach, EDA should provide a 10-percent bonus in program and project funds for those areas which commit State and local matching funds and adhere to regional investment strategies. This bonus could be applied through the grant process at the discretion of the Secretary.

An incentive approach was developed for another program by the Public Works Committee. Prior to 1972, when the Federal Water Pollution Control Act was amended to require State and regional planning under section 208 of the law, Congress provided an incentive to encourage State participation and regional planning for water facilities. As an incentive, a 10-percent bonus was provided for State participation and a 15-percent bonus was provided if the applicant could show that the project was consistent with the regional development plan.

No. 7, NARC supports the addition of a provision in title III which would specifically encourage the use of substate planning districts to administer the proposed development financing program. Although EDA has requested a significant increase in personnel, we are not convinced that it could adequately handle such a new broad program. Thus, because substate districts are already involved in the EDA grant and planning programs, we believe that

it would save dollars to utilize these existing entities in the administration of the title III program.

No. 8, NARC would also support a provision in legislation to establish a standby countercyclical aid program. I commend this subcommittee for its prompt action in legislating a round I and round II public works countercyclical program to boost our economy during its recessionary periods. However, no matter how quickly Congress may want to act on implementing legislation, unavoidable delays in the legislative process occur. Thus, a permanent standby countercyclical program would be the Federal Government's insurance that in periods of recessions, counter cyclical funds to eligible communities would be administered in a prompt manner. We believe that this approach makes sense.

For the National Association of Regional Councils and myself, I wish to express our appreciation for this opportunity to testify. We have offered the views of NARC and those of us who are local elected officials working through regional councils on these important legislative issues.

We would be glad to answer any questions.

Senator BURDICK. Senator Randolph.

Senator RANDOLPH. Thank you, Mr. Chairman.

It seems to me that the recommendations by the witnesses certainly will be constructive in the finalization of the bill to be reported from the subcommittee and subsequently from the full committee itself.

In order to move the hearing ahead, I am not going to question Mr. Hunter at length about the statement that he has presented on behalf of the National Association of Regional Councils. I may submit questions in writing.

I would like to talk with you about what this program has meant to a State like West Virginia, where you reside. You come from the heart of the mountainous area of West Virginia, Nicholas County. You are located there in connection with the Region Four Planning and Development Council. You chair that council; is that correct?

Mr. HUNTER. That is correct, Senator.

Senator RANDOLPH. Let's see what has been happening. We have a Bright of America Corp. in Summersville; is that correct?

Mr. Hunter; That is correct.

Senator RANDOLPH. Bright of America was organized originally by two young men, and their names were Bright—and they are bright young men. After they had been graduated from West Virginia University and had met with their father and others, the dynamic dream came into fruition, and the Bright of America Co. began operations. But Bright of America had to have help; is that correct?

Mr. Hunter; That is correct.

Senator RANDOLPH. It had to have help. Bright of America could never come into existence, could never continue, could never hold the hope for the future, not only for employment of several hundred men and women, but also for the productivity of products that are manufactured in our hill country and are shipped all over this Nation. The funds that you discuss, which can be described as a catalyst, together with other helpful funding programs made all of this possible.

What is the picture at Bright of America today?

Mr. HUNTER. Bright of America is apparently a very successful firm. They are a nationwide firm providing employment to approximately 350 people. It is a wonderful industry in Nicholas County and provides a great deal of continuing employment in an area which has been depressed. Bright of America is a beautiful addition to Nicholas County and our region as a whole.

Senator RANDOLPH. I give this as only one illustration. It is not necessary to go into the amount of money at the moment, but will the Federal Government be repaid?

Mr. HUNTER. I believe it will, yes.

Senator RANDOLPH. In the State of West Virginia, we were able, through your work and the work of many others, to realize the values of this economic development effort. We could move—and I will only move by illustration, not in detail—we go into the Clarksburg and Grafton areas, which is in Harrison and Taylor Counties, and there we find today this same picture of Bright of America except in different amounts and stages of development, and that concern is the Foreco Glass Plant. There the amount was 1,000 employees. They would be unemployed today had it not been for the catalyst of EDA and other elements that were brought together in connection with that plan.

Some say let it go down the drain. We don't need Federal money to do this job. Let it rise or fall upon its ability to borrow from the banks or through some type of insurance company borrowing. But that is not enough, because there are 3,000 or 4,000 men and women involved—not only the workers, but the families of workers.

We think in terms of our responsibility under our form of government—not in giving handouts, but in providing the helping hand of Government through programs of the type we discuss here today. So whether it is 800 or 900 at Foreco, the same picture as in Bright of America is there almost identically.

We move then to the north, at Morgantown, W. Va., and there we had Rockwell International. No criticism of that compay which is a part of a conglomerate, very successful, but planning to close down, Mr. Chairman, and to move out. So here comes this program again as the catalyst which helped us to reestablish the company which was Sterling Faucet, and became Rockwell International. I remember Sterling Faucet, when Mr. Wes Ruby came in from Ohio with some 15 persons and began. Then it blossomed to 4,000 men and women working at the Sterling Faucet Co.

I come now to the time when there had to be, as in the two illustrations I have given, reorganization and new management of the public service district, as it were. The local community entered with the raising of $200,000 locally. All these were vital. But without EDA, the plant would have closed. This is a factual statement.

Now that is subject to be repeated, not in these two or three instances, but in perhaps seven or eight accounts. EDA, as an instrumentality of what I call a practical, helpful government, has pluses more than minuses to its credit. As we come to the rewriting and extending of the present act, we cannot forget what the program has done, what it has meant.

For a moment, let's go from these companies and let's think in terms of projects such as water and sewage.

Mr. HUNTER. Yes.

Senator RANDOLPH. Here you found, in the hills, a lack of not only water to drink, but even a lack of water with which to bathe. Not that we don't have plenty of rain, floods; certainly as any area of the Appalachia. But there was a need for water, a very real need.

When I think of that, I go to the east of Summersville, to Richwood, and what happened there. Is there now a large tank where the old tank once was?

Mr. HUNTER. There certainly is.

Senator RANDOLPH. Absolutely. It was at the point of bursting. We were also able to bring into that community a very modern water system. It was needed, long overdue. Was EDA around on that project?

Mr. HUNTER. Yes, sir.

Senator RANDOLPH. Yes. These projects have withstood the crucial test of the ability to help the people in the hills and communities of the State of West Virginia.

I come back to a county like Nicholas. It is a rural county.

Mr. HUNTER. Primarily.

Senator RANDOLPH. West Virginia is the second most rural State in the Union, other than Vermont. Yes, we have coal, we have steel, we have glass, we have chinaware; yes, we have all of these products. It is an industrial State, whether it is Kaiser Aluminum along the Ohio River, or General Motors here in the panhandle just 65 miles from where this meeting is held today. But we are essentially a rural State, of people living on the hills and in the valleys, and moving in a rather rural atmosphere, which I hope will continue to remain.

Having said all that, and said it too slowly and perhaps too involved, Steven, what comments do you or Larry have to add to what I have said? Because I think that you appear not only for the national association, but in a sense, you know this countryside that I have been talking about here today. Or Larry, you might wish to comment as we conclude.

Mr. HUNTER. I think, Senator, I would like to comment in addition to serving on the council, I serve in the Pocahontas County government.

Senator RANDOLPH. You are originally from there.

Mr. HUNTER. Yes, I still serve in the Pocahontas County government, and only by virtue of being a member, a prosecuting attorney and former county commissioner do I serve on the regional planning and development council.

Very recently, EDA has allowed us to retain a plant by Hanover Shoe Co., and to construct a new $1.5 million plant which will be constructed by private financing with EDA putting up just sufficient funds to develop the industrial park site.

Senator RANDOLPH. May I interrupt at this point.

Mr. Chairman, there was a time in West Virginia when we had throughout our State several tanners, but we had no shoe plants. We had leather, but we never constructed the shoe plant. But now we have 10 or 11 shoe plants.

Mr. HUNTER. I am not certain of the number in the State. I do know the Hanover plant will be the third Hanover plant in our immediate area.

Senator BURDICK. Mr. Chairman, we have the leather.

Senator RANDOLPH. And we have the leather.

I think there is one in Hamilton County.

Mr. HUNTER. Elkins has a Bata Shoe Co. I am really not sure of the exact number.

Senator RANDOLPH. But they are all over the State—Hanover, Bata, and maybe one or two others.

Mr. HUNTER. The importance of EDA funding is, Hanover submitted the proposal they would build the plant if the county can show a commitment they have an interest. We are talking about a county government that has an annual budget of $180,000 a year, and where were we to come up with some $300,000 to develop an industrial park? That meant some 200 jobs vital to our rural economy. People can only live so much off the land, and we have to have some industry. Without an agency like EDA that can move fairly rapidly, we would not have been able to fund this.

EDA throughout our region has been very cooperative, and so many times it has been the catalyst to come in and complete a project that has been at a standstill and would have died for lack of funding, or a project which needed additional capital to kick it on and get it toward completion.

Senator RANDOLPH. For the record, coming back to the shoe plants, we want to include the Kinney Shoe plant at Romney in Hampshire County. Right now I am just commenting on it because it comes to me at this time.

Mr. Chairman, I know we have taken considerable time, and I know there will be questions from you.

I just wonder, Larry, did you have anything to add? Where are you from originally?

Mr. BRADFORD. I am from Morgantown originally, but I reside in Summersville.

I mainly just wanted to bring to your attention the importance of the planning process in relationship to the industrial park, this type of thing, because basically EDA has helped us develop a grassroots effort in the development of regional development plans, also an overall economic development plan, which we now synthesize with the State in coming up with a priority process for better investment of State, local, and Federal dollars. So EDA has been an important catalyst in our efforts to maximize and utilize the moneys we have at hand.

Senator RANDOLPH. Thank you very much.

Senator BURDICK. Thank you for your testimony. I just have one question. I have asked this question of other witnesses about the duplication that could occur in the planning area. We have city planners; we have State planners. Now we have what we call substate district planners, and under the Appalachian legislation and title V legislation we have planners. You suggest here the legislation should include an additional provision which insures coordination and consistency. That is exactly what I want so you don't have overlapping and so forth. Have you got any language that would do that job?

Mr. HUNTER. I am sure we can provide that language.

Senator BURDICK. I wish you would.

Mr. HUNTER. We certainly will impress on our national association to assist in any way possible.

I might add, our local Regional Planning and Development Council, we have all those people in one office. So there isn't a duplication. The duplication of spending of moneys, I heard you allude to that earlier.

Senator BURDICK. I am going to look forward with a great deal of interest to your language, because this is what we call back home crossing the straw pile about four times.

Thank you.

Our next witness is Dr. Benjamin Chinitz, director, Center for Social Analysis, State University of New York. Welcome to the committee.

STATEMENT OF BENJAMIN CHINITZ, DIRECTOR, CENTER FOR SOCIAL ANALYSIS, STATE UNIVERSITY OF NEW YORK AT BINGHAMTON

Mr. CHINITZ. Thank you, Mr. Chairman. It is good to be back again.

Senator BURDICK. Yes, I remember that name.

Mr. CHINITZ. I have submitted testimony for the record, and with your permission, I would rather not read it verbatim.

Senator BURDICK. I am delighted to have you summarize. Your full statement will be placed in the record. (See p. 336.)

Mr. CHINITZ. I think I would like to focus on just a few points. The first one has to do with a very rational purpose of the bill and of the activities of EDA.

Until a few moments ago, I was going to start out by saying that the section on findings and purpose fails to mention one purpose which I think is important and crucial to the legislation and to the program. But as a consequence of having to wait my turn and having an opportunity to study the legislation even more carefully, I discovered one phrase in the text which does allude to the point I would like to emphasize. I refer to page 3 of the bill where it speaks of delivering and coordinating Federal assistance to economically distressed areas and industries and groups within those areas, and I want to emphasize the following words, "crucial to the health of the national economy." This is the only place in the bill, certainly in the section on findings and purpose, where there is any reference, however meager, to the relationship of this bill and this activity to the health of the national economy.

Interestingly enough, the only change in the title of the bill as compared to the original Public Works and Economic Development Act is precisely the word "national." Otherwise, it reads exactly as the original bill. And one wonders why that word "national" is not given more prominence in the findings and purpose and reflected in the provisions of the legislation.

What I have in mind is the following: If we compare today's national economy to the national economy of 1965, we have at least three significant changes.

One is that the economy in the seventies is experiencing much slower growth in real terms—that is, in terms of productivity—than it did in the fifties and particularly in the sixties.

A second is that it looks as if full employment in the seventies, and probably for the rest of the century, means, at best, something like 5.5 percent unemployment. We are not there yet, but I am willing to grant you another couple of decimal points. Back in 1965, full employment was conceived of as 4 percent or less unemployment.

The third fact is that we now have double digit inflation and back in 1965 we barely had single digit inflation. We had virtual price stability just about up to that point, and then we began to experience inflation.

I would like to suggest that EDA and this legislation should have some bearing upon these facts of the national economy, that the high unemployment, rapid rate of inflation and slow rate of growth are the context within which we should see EDA today, a different context from that of 1965. This says to me—and this would be my interpretation of the text "crucial to the health of the national economy"—that EDA can contribute not only through the relief of distress in particular areas, but also by making it a basic objective and purpose to take part in a strategy which tries to get more growth and fuller employment with less inflationary pressure.

Now as an economist who has long been interested in regional problems and in EDA programs, I have always felt in my gut and wished I could articulate to everyone's satisfaction that EDA programs are not just transfer programs, that they don't just serve certain equity goals, but that they actually can contribute, albeit in a small way, to the national growth. I find many more people share that point of view now, in the current situation, than were willing to share that point of view earlier in EDA's history. I find that among businessmen and economists there is more direct discussion and reference to the need for targeting to achieve a greater degree of full employment with less inflationary pressure. And I would like to see—and obviously it is not too late—in the findings and purpose more language along these lines. In addition to findings one, two, and three which speak to distress in specific communities and the consequences of that distress for people and for local jurisdictions, I would like to see a whole section referring to the ills of the national economy and how this kind of program, which seeks out places in the country where there is slack, can contribute to the national welfare by targeting assistance to areas with unemployed labor or capital so as to produce additional output with less inflationary pressure.

Aside from having that as an additional statement of findings and purpose, what would be the implication of that perspective for EDA's central mission? I think it would provide a unique role for EDA, and, by the same token, I think EDA would be better off pursuing that unique role than duplicating the roles and missions which are more appropriately dealt with by other agencies. I refer, for example, to the language in the legislation which emphasizes the need to target jobs to the poor and disadvantaged. It seems to me there are other giant Federal programs aimed at that goal and that EDA should focus on stimulating investment and job creation

on the demand side of the situation and not saddle its clients with the additional responsibility of targeting the jobs to specific unemployed people. I think that responsibility belongs to other agencies which have that as their major mission.

Another implication of this point of view is that it does not make much sense for EDA to be providing even the modest support which is authorized for planning purposes to those areas of the country which do not qualify by the criteria of the act. I, frankly, do not see the merits of authorizing planning assistance for every State in the Union, when this includes States which by any measure have rapid growth, relatively full employment and prosperity. My own studies of the use of State planning funds suggest that those funds will inevitably to be used in some measure to accelerate the very processes that the rest of the legislation is trying to correct.

Finally, it seems to me that the perspective that I offer as a rationale for EDA would also call for some modification in the criteria themselves. If we are really looking for opportunities to generate additional investment and additional employment with minimum inflationary pressure—in other words, looking for places where there is slack—we don't want to go to places that are growing very rapidly, even if, at a given point in time, their per capita income might be only 80 percent of the national average. If the record shows they are advancing at breakneck speed toward the national average in per capita income and that they have low unemployment, I really don't see much justification for making such areas eligible for EDA assistance.

I think I will leave my summary at that and invite your questions.

Senator BURDICK. You have done some study on planning, I surmise from the statement. Is there duplication in planning under present practice?

Mr. CHINITZ. That is a question you challenged me with last time. There certainly is. Duplication is probably not the greatest evil or the greatest fault that one could call attention to, however, because while there is duplication, there may also be inadequate planning. The issue that I would like to address here is planning for economic development at the State level, which often takes the form of pursuing industry. One can take a benign view of that and say, "Well and good, instead of just planning, they are acting," and maybe you will feel better than if I told you they were just planning.

However, in the context of this legislation, there doesn't seem to be much sense in providing Federal support for States to pursue industries more vigorously. On the one hand, there is no reason why we should strengthen the hands of the States that are doing well in the competition for industry against the very clients we are trying to help with EDA support. On the other hand, there is also evidence, some of which you heard this morning from Professor Birch, that there really isn't much payoff in the explicit pursuit of industry, and it would be a shame to have too much Federal money spent for such purposes.

I would feel comfortable with Federal support for State planning in all States if, and only if, that support could be tied to the

condition that the State would use it to do a better job with its own distressed communities, assuming that every State in the Union, regardless of its overall economic condition, has some communities in distress. If the moneys could be allocated explicitly for that purpose, and if they could be monitored to make sure they were being used in that way, the moneys were fine. But I think that would be a difficult thing to accomplish, and the language of the legislation doesn't even pretend to restrict the use of those moneys for that purpose.

Senator BURDICK. Thank you very much.

Our next witness is Kevin Boland, Associate Director, Energy and Minerals Division, General Accounting Office.

STATEMENT OF F. KEVIN BOLAND, ASSOCIATE DIRECTOR, ENERGY AND MINERALS DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY FLORA H. MILANS, ASSISTANT DIRECTOR, ENERGY AND MINERALS DIVISION, GENERAL ACCOUNTING OFFICE, AND DONNA M. LAVIGNE, SUPERVISORY AUDITOR, ENERGY AND MINERALS DIVISION, GENERAL ACCOUNTING OFFICE

Mr. BOLAND. Thank you, Mr. Chairman.

Accompanying me at the table today are Flora Milans, Assistant Director of the Energy and Minerals Division, and Donna Lavigne, Supervisory Auditor in the Energy and Minerals Division.

We welcome the opportunity to provide input to your deliberations on S. 971, the Inland Energy Impact Assistance Act of 1979. Our testimony stems primarily from a report we issued in July 1977 on "Rocky Mountain Energy Resource Development: Status, Potential, and Socioeconomic Issues" (EMD-77-23). A summary of that report is attached to this statement.

I should emphasize that our report deals with socioeconomic impacts resulting from energy development in the Rocky Mountain area, while the legislation you are considering today would provide for Federal assistance to mitigate energy impacts both in the Rocky Mountain and other affected areas of our Nation. Of course, the Rocky Mountain area is significant since it contains about 95 percent of the Nation's uranium, 90 percent of its oil shale, and 41 percent of its coal.

Rapid and extensive development of energy resources can have profound socioeconomic and environmental effects on an area. As energy resources are developed, new towns will be built and rapid population increases will occur in existing communities. The need for housing, public facilities, and services often arises before adequate local funding is available.

The towns of Rock Springs and Green River, Wyo., and Craig and Hayden, Colo., are vivid reminders of the dislocations and stresses created by rapid energy growth.

Numerous studies estimate widely varying per capita costs of facilities and services for individual communities experiencing rapid growth. One such figure in our report was derived by using (1) a high estimate of $4,892 in per capita costs and (2) a population increase of 600,000 in the six States where most of the Rocky Mountain energy development is likely to take place. That resulted in an estimate of $2.9 billion, in 1975 dollars, which might be

required by 1985 for public facilities and services in the six-State area. This estimate did not consider growth associated with conversion, transportation, and utility industries which could increase the estimate; nor did it reflect later events which indicate a slower rate of development than the studies anticipated.

We also sought to determine the amount of State, Federal, and industry assistance available or being provided to local communities. Several States passed legislation intended to provide help to energy affected communities. In 1975, for example, Wyoming passed a comprehensive legislative package, establishing two funds to be used to mitigate socioeconomic impacts. At that time the funds were expected to reach $220 million by 1985. However, I understand one of the funds, totaling $100 million, was recently declared unconstitutional by the State supreme court.

Montana established a coal severance tax, which our study estimated could generate between $241 million and $1.1 billion by 1985. About 25 percent of the tax revenues would be allocated to a local impact fund and to the coal-producing area. However, Montana has been enjoined from using moneys collected under the coal severance tax because of a suit filed by Montana Power and Light Co.

North Dakota enacted a coal impact program in 1975 which (1) established a temporary severance tax through 1979, (2) created a coal development fund, and (3) provided for a coal impact development office to distribute funds. Thirty-five percent of the severance tax can be allocated to the coal impact office. By April 1978—our latest available information—120 projects had been funded, with impact grants approved totaling $2.8 million in fiscal year 1976 and $1.9 million in fiscal year 1977.

The Federal Government has provided and will continue to provide funds which could be used to offset the impacts of energy development. Many Federal programs provide grants, loans, Federal mineral lease royalties, or annual payments.

For example, our study showed that in fiscal year 1975, 70 energy affected communities in six Rocky Mountain States received $39.2 million in direct Federal aid under various Federal programs, primarily those of the Farmers Home Administration and the Environmental Protection Agency.

Other indirect funding includes royalties and bonuses under the Mineral Leasing Act of 1920. These funds totaled over $90 million for fiscal year 1975 and approximately $111.6 million in fiscal year 1976 for the Rocky Mountain States. The Federal Coal Leasing Amendments Act of 1975 (Public Law 94-377), which amended the Mineral Leasing Act, increased coal royalties from 5 cents per ton to 12.5 percent of the selling price of coal and increased the percentage of such royalties returned to States on new mineral leases from 37.5 percent to 50 percent. The act calls for States to give priority in using the additional 12.5 percent to areas economically impacted by minerals leased under its provisions. This resulted in payment to the Rocky Mountain States of about $146 million in fiscal year 1977 and about $169 million in fiscal year 1978.

Additionally, in October 1976, the Congress enacted the Federal Land Management and Policy Act of 1976 (Public Law 94-579), which authorized loans to States and political subdivisions up to

the anticipated mineral royalties for any prospective 10-year period to relieve the social or economic impact caused by development of mineral leases. Obviously, given the continuing increase in such royalties, the potential for such loans is substantial.

In addition to royalties for minerals development, the Local Government Funds Act (Public Law 94–565) provides for annual payments directly to local governments based on the amount of Federal land within their jurisdiction. Such payments to Rocky Mountain governments were about $63 million in fiscal year 1977 and $59 million in fiscal year 1978.

While these programs already exist, unfortunately they are administered by agencies with little coordination and many are not designed to help small communities cope with rapid growth.

As for private industry, it has provided assistance in a few cases. For example, in Colstrip, Mont., and Gillette, Wyo., energy developers planned and constructed homes.

Subsequent to our July 1977 report, the Congress enacted several additional measures to assist energy affected communities in the Rocky Mountain and other areas.

The Department of Energy Act of 1978 authorizes payments to atomic energy communities and establishes a revolving fund to be used in part to assist other communities impacted by alternative fuel demonstration facilities. Atomic energy communities payments totaled $10 million in fiscal year 1978. No funding was earmarked under this legislation for other communities in fiscal year 1979.

The Power Plant and Industrial Fuel Use Act of 1978 provides financial assistance to communities affected by increased coal and uranium production. That act authorizes grants of $60 million in fiscal year 1979 and $120 million in fiscal year 1980. In fiscal year 1979, $30 million is appropriated to the Department of Agriculture to provide this assistance.

Section 746 of the act requires an interagency committee, whose chairman shall be designated by the President, to issue an updated analysis by November 1979 of the socioeconomic impacts of expanded coal production and rapid energy development in general. This report is expected to provide current information on the level of assistance provided under this act and other impact assistance programs together with any recommendations for additional legislation it may consider appropriate. We understand, however, that no such committee has been set up to date.

As shown by this discussion, considerable Federal assistance under various authorities is available to State and local governments. Further, some Western States have acted on their own to alleviate some of the problems of energy development.

We concluded in our July 1977 report that the need for additional Federal assistance in the Rocky Mountain area had not been demonstrated at that point in time. Further, we concluded that increasing Federal programs to assist State governments may not help energy affected communities unless States take greater care to distribute funds to them. We also saw a need for better coordination among, and operation of, existing Federal assistance programs and made appropriate recommendations to that effect.

Although we concluded in our July 1977 report that the need for additional Federal assistance had not been demonstrated, we did

recommend that, if the Congress wished to further help Rocky Mountain communities, any additional assistance be contingent on the States doing three things:

(1) Taking actions to meet a minimum level of assistance to communities affected by energy development;

(2) Developing plans to systematically deal with the impacts; and

(3) Clearly demonstrating in their plans that the assistance would actually be used to help energy affected communities.

In March 1978, the Department of Energy issued a report to the President on "Energy Impact Assistance." The report was prepared by the Energy Impact Assistance Steering Group, composed of State and local government and Indian tribal representatives and Federal officials from numerous departments and agencies. It noted that much of the new energy development between now and 1985 will occur in rural or isolated areas such as the West and Appalachia. It stated that, without some additional efforts to assist energy-impacted communities in mitigating or avoiding negative impacts, adverse socioeconomic consequences could occur. Also, the report discussed four sets of policy options, ranging from minimal new efforts to undertaking major program reform and expenditure of substantial new Federal funds.

Subsequently, in May 1978, the President announced a 5-year program to help inland States, communities, and Indian tribes in planning for and mitigating the adverse effects of rapid growth due to energy resource development. Legislation was introduced but not acted upon in the last Congress encompassing the President's program which would provide $150 million annually in grants to States and Indian tribes and up to $1.5 billion in loan guarantees.

If the Congress does conclude that further energy impact assistance is now needed, we believe that S. 971 as now drafted has some features consistent with the recommendations of our report and does address several other important areas. For example, it provides for:

Participation by interested parties at the Federal, State, local, and Indian tribe level in decisions on energy impact assistance;

The development of detailed plans for alleviating impacts on an area-by-area basis. The detailed plans must contain specific proposals for implementation;

A systematic approach for approving individual plans;

Early availability of funds for initial planning;

Federal/State cost sharing for energy impact assistance with the States' share of the cost increasing from 12.5 percent in 1980 to 50 percent in 1984; and

A focal point for the coordination of all Federal programs which provide energy impact assistance.

However, a recurring issue which the Congress faces in addressing Federal energy impact assistance legislation is that of demonstrated need.

We believe that the approach taken under section 746 of the Powerplant and Industrial Fuel Use Act, requiring further interagency study of the socioeconomic impacts of expanding energy development, is appropriate. To help determine whether additional legislation is required, the Congress needs current information on the kinds of needs not currently being met by existing Federal and

State assistance programs, the magnitude of the problem, and exactly where and to whom Federal moneys should be targeted.

Moreover, we believe that any legislation enacted by the Congress should encourage States and individual communities to provide at least minimum levels of assistance. To this end, we believe that funds should generally be made available as loans or loan guarantees and that grants be directed primarily toward financing the front-end planning needed to deal with energy impacts. This would (1) reduce Federal outlays and (2) avoid subsidizing, at the expense of all taxpayers, those communities which will reap the long-term benefits of energy development.

After we have had the opportunity to examine this bill in more detail, we will provide further comments for the record.

Mr. Chairman, this concludes my prepared statement. We will be happy to respond to your questions.

Senator BURDICK. Thank you for a very fine statement.

In other words, what you are saying is there is considerable help available to the impacted areas as a result of legislation already enacted.

Mr. BOLAND. I would say that is true, Mr. Chairman. Again, we looked at the issue back in 1977. At that time we were convinced that there wasn't a demonstrated need. Having worked on Economic Development Administration programs for a while, I recognize the significant impact these programs can have. However, we see a lot of money that the Federal Government is providing in terms of grants and loan guarantees. At the same time, we see some States making a substantial contribution on their own behalf. Some of these changes have occurred since our last report. The problem is to get a better understanding of how this money is being funneled and targeted to the local communities that need it.

I know of your concern about the need for better coordination in how the money is being spent, and whether there is enough to go around. I think that is an area especially in need of attention.

Senator BURDICK. You conclude your statement by more or less supporting a grant program and loan guarantee, because many of the States, and North Dakota is one, have a severance tax bringing in funds. One of the problems they have is impact right now. As the money comes in over the years, it will be helpful to have this fund. You specify loans. There is a legal problem, I think, in that many of the State constitutions prohibit borrowing money; therefore, they are urging that this be a grant instead of a loan. Would you speak to that, how we can get around it if that is our desire?

Mr. BOLAND. Again, I think our emphasis is to provide grants when States need front-end money for planning. Where you have a State constitution problem in either getting grants or loans, I think it is not an insurmountable problem. I think there are opportunities available to the State government through revising its charter to take advantage of Federal funds, whether they be loans or grants. I am not especially familiar with the charter in North Dakota.

Senator BURDICK. The question is raised not only by North Dakota, but raised by several States last year, that many States for that reason would prefer using grants.

Mr. BOLAND. I understand from conversations I have had that there are opportunities to meet that problem.

Senator BURDICK. If you have any suggestions, we would like to hear them.

Mr. BOLAND. We would be glad to look into that and provide any insight we can.

Senator BURDICK. The Department of Defense operates a program to help communities deal with the impact of base openings and closings. As part of the Defense Department program, communities receive the first call on Federal grants. In that DOD program, a Federal official is appointed to coordinate Federal programs, act as a clearinghouse. Are you familiar with the DOD program and do you think it could work well in energy impact assistance?

Mr. BOLAND. I am sorry, I am not familiar with that program.

Senator BURDICK. Thank you very much.

[An attachment to Mr. Boland's statement and additional comments follow:]

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COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

ROCKY MOUNTAIN ENERGY RESOURCE DEVELOPMENT: STATUS, POTENTIAL, AND SOCIOECONOMIC ISSUES

D I G E S T

What should be the roles of the States, the Federal Government, and industry in providing assistance to Rocky Mountain communities affected by development of the region's vast sources of largely untapped energy?

Ninety-five percent of the Nation's uranium, 90 percent of its oil shale, and 41 percent of its coal lie in the relatively sparsely populated Rocky Mountain States--Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, the Dakotas, Utah, and Wyoming.

Rapid and extensive development of these resources may have profound socioeconomic and environmental effects on the area.

Rocky Mountain coal and uranium have the greatest potential for expanded development. Also, large deposits of gas may be locked in tight, low permeability formations in deep Rocky Mountain basins. Expanded large-scale development of the area's coal, uranium, and gas resources, however, depends on environmental, social, economic, and technological factors. Although oil will continue to be developed in the area, large new finds are not expected. Geothermal resources, oil shale, and tar sands also have some potential for development. (See pp. 9 to 25.)

As these resources are developed new towns would be built and some existing communities would double, triple, and quadruple their populations in a few years. This, in turn, would cause changes in social patterns and strain or deplete economic resources of some small communities.

The need for housing and basic public facilities and services, such as sewers, roads, utility lines, police, fire departments, parks, playgrounds, health care, and schools,

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often arises before adequate local funding is available. Most of these problems could be solved if communities knew the timing of development so that facilities and services could be planned and designed, and had funds available to begin providing them before the additional people arrive. (See p. 31.)

In 1975 the Federation of Rocky Mountain States estimated the population of the Rocky Mountain States to grow by 600,000 by 1985 due solely to the mining of coal, oil shale, and uranium. This estimate does not include growth associated with conversion, transportation, and utility industries nor does it reflect recent events such as the

--suspensions of oil shale leases,

--withdrawal of the sponsors for a major powerplant,

--refusal of the 94th Congress to pass various legislation authorizing large Federal subsidies for synthetic fuel and nuclear development, and

--continuing uncertainties over the economics and social desirability of synthetic fuel and nuclear power development.

These events indicate a slower pace of development than the recent studies anticipated. (See p. 39.)

Using this estimated population increase and the low and high estimates of per person costs of $3,121 and $4,892, GAO found that between $1.9 billion and $2.9 billion in 1975 dollars in public facilities and services might be required by 1985. (See p. 53.)

Several States have passed legislation intended to provide significant help to communities affected by the problems of Rocky Mountain energy growth. In 1975, for example, Wyoming passed a comprehensive legislative package, establishing two funds which eventually could total $220 million,

to be used to mitigate socioeconomic impacts. (See pp. 40 and 41.)

Montana has established a coal severance tax which could generate as much as $1.1 billion between 1975 and 1985 from two large coal producing counties and will allocate about 25 percent of the taxes to a local impact fund and the coal generating area. (See pp. 42 and 43.)

In a few cases industry has provided financial and other assistance. (See pp. 50 and 51.)

Many fragmented Federal programs have provided and will continue to provide funds to energy-affected communities. In fiscal year 1975, the Federal Government contributed $39.2 million in grants and loans to directly aid 70 energy-affected communities in Colorado, the Dakotas, Montana, Utah, and Wyoming--the 6 States in which most Rocky Mountain energy development is likely.

These States also received $183.7 million in Federal mineral lease royalties and other indirect aid. At least $20 million of the $183.7 million and an indeterminable amount of the balance went to affected counties. (See pp. 44 to 47.)

These Federal programs are not specifically designed to help small communities cope with rapid population growth and are administered by a number of agencies with little coordination. Federal agencies are attempting through the Mountain Plains Federal Regional Council to coordinate Federal efforts to aid energy-affected communities. The Council, one of a number of Federal Regional Councils established by Executive order to assist State and local governments by coordinating Federal programs and operations, is composed of the principal regional officials of eight Federal agencies. It is responsible to the Under Secretaries Group for Regional Operations composed of Under Secretaries or similar officials from member agencies of the Council and other agencies and chaired by the Deputy Director, Office of Management and Budget. However, there is still no Federal office in the Rocky Mountain area where State and local

officials can obtain advice on the availability of all Federal assistance programs and assistance in applying for such aid. (See pp. 49 and 50.)

In August 1976 the Federal Coal Leasing Amendments Act of 1975 (Public Law 94-377) increased the royalties returned to States from new mineral leases on Federal lands from 37.5 percent to 50 percent. The 12.5 percent increase consisted of royalties that had previously been paid into a Federal reclamation fund, the moneys from which could be used in all Western States for irrigation projects. In addition, the act increased the royalties on surface-mined coal from 5 cents per ton to not less than 12.5 percent of the selling price. In fiscal year 1976 mineral royalties paid directly to the Rocky Mountain States were about $107 million. As a result of this act and overall increases in mineral revenues, the Department of the Interior estimates royalties paid directly to the Rocky Mountain States will increase to about $179 million in fiscal year 1979. Since a considerable amount of this increase involves moneys that would have gone into a reclamation fund for projects in the Western States, the major effect of the act was to increase moneys from royalties which will be directly available to the States. These moneys could be used to mitigate the impacts of energy resource development.

The Federal Land Policy and Management Act of 1976 (Public Law 579), enacted in October 1976, enables the royalties to be used as the legislatures of the States direct, such as for planning, construction, and maintenance of public facilities, and provision of public services. The act also provided for loans to States and political subdivisions for the same purposes. Loans can be made up to the anticipated mineral royalties to be received by the recipients for any prospective 10-year period, which in the case of the Rocky Mountain States will likely be between $1.5 billion and $2 billion for the next 10 years. (See p. 48.)

Public Law 94-565, also enacted in October 1976, provided for annual payments to be made directly to local governments based on the amount of Federal lands within their

jurisdiction. Interior estimated these annual payments to Rocky Mountain local governments at $69 million, or about $621 million from 1977 through 1985. (See p. 49.)

CONCLUSIONS

State and local governments should be primarily responsible for providing the necessary facilities and services, but the Federal Government and private industry should provide some assistance.

The States have various means available for raising and distributing money to needy communities without directly taxing their populations. These include levying severance taxes on extracted resources; creating a bonding authority to issue special revenue bonds; using discretionary Federal funds under existing programs and taking advantage of the increased moneys available in royalty payments and loans under the Federal Land Policy and Management Act of 1976, and in annual payments under Public Law 94-565. (See pp. 57 and 58.)

Rocky Mountain State and local governments should be primarily responsible for providing facilities and services prior to or concurrent with population increases for the following reasons.

--They receive economic benefit from energy development.

--Wyoming and Montana have shown that States can provide a far greater amount of assistance than at present without unduly burdening their taxpayers. In addition, considerable Federal funds in royalties, annual payments, loans, and grants are already available to the States for this purpose.

--Based on the traditional separation of powers and responsibilities, it is mainly a State responsibility to fund public facilities and services. The States have traditionally assumed this responsibility. This is not to say, however, that the Federal Government should not continue to

provide some assistance and look for ways to make its existing programs more useful to the State and local governments.

--They can encourage or require greater industry participation through such actions as legislation permitting prepayment of corporate, sales, and use taxes, and by requiring industry performance bonds which would be forfeited if development would not occur due solely or principally to an industry decision. (See p. 54.)

It is not industry's responsibility to provide the facilities and services needed because of energy resource development. But industry does have a strong and continuing responsibility to communicate its plans to State and local governments, as soon as possible, and to establish and maintain a continuing liaison with these governments. Industry is also responsible for meeting other reasonable requirements imposed by States and local authorities. These could include posting performance bonds and industry guarantees of local debt incurred to build facilities needed because of energy resource development. (See p. 58.)

The Federal Government should continue to provide some assistance. Recently, as shown above, it has greatly increased its assistance and will likely provide in excess of $2 billion in royalties, annual payments, grants, and loans to Rocky Mountain States and communities between now and 1985. In addition, the Federal Land Policy and Management Act of 1976 provides for loans to States and communities up to their anticipated mineral royalties for any prospective 10-year period. The need for additional Federal assistance at this time has not been demonstrated. (See pp. 58 and 59.)

Increasing funding of present Federal programs to assist State governments may not help energy-affected communities unless States use discretion in distributing the funds to them. No effective mechanism exists to guarantee that the funds given to States will go to communities where impacts occur. There is no evidence that the Federal Government should interfere

in the relations between State and local governments. However, GAO believes there should be some assurances that impacted communities will receive funds available to mitigate the socioeconomic impacts of energy resource development.

RECOMMENDATIONS

The Under Secretaries Group for Regional Operations should:

--Take whatever action may be necessary to open and staff an office where State and local officials can obtain advice on the availability of Federal assistance programs and, if necessary, assistance in applying for such aid. This could be accomplished under the auspices of the Mountain Plains Regional Council provided that funds are appropriated for such an office or prior congressional approval is given for the use of funds appropriated to agencies that are members of the Council.

--Monitor and periodically evaluate the work of the office and the need for additional Federal assistance to Rocky Mountain State and local communities affected by energy development.

--Direct that any such office established by the Under Secretaries Group prepare an annual report to the President, in close coordination with the Federal Energy Administration, evaluating the need for additional Federal assistance. In the event that appropriations or congressional approval are not granted for such an office, the Under Secretaries Group should request the Federal Energy Administration, in cooperation with other responsible agencies, to prepare this type of report. (See pp. 59 and 60.)

RECOMMENDATIONS TO THE CONGRESS

This report is intended to provide the Congress with information on the status, potential, and socioeconomic impacts of Rocky Mountain energy resource development. The report should aid in making national energy decisions and decisions on the need for additional Federal assistance for Rocky Mountain communities that will be affected by such development.

We believe that the need for additional Federal assistance at this time has not been demonstrated. If, however, the Congress does wish to further help Rocky Mountain communities, we recommend that any such assistance be contingent on the States taking actions to meet a minimum level of assistance to communities affected by energy development and on the States developing plans to systematically deal with the impacts. The States should be required to clearly demonstrate in these plans that the assistance would actually be used to help energy-affected communities. (See p. 60.)

AGENCY COMMENTS

The views of the Office of Management and Budget, the Department of the Interior, the Federal Energy Administration, the Western Governors' Regional Energy Policy Office, and the Council on Environmental Quality vary greatly on the nature of the problems discussed in this report and what needs to be done.

In essence:

--The Office of Management and Budget and the Department of the Interior generally agreed with our conclusions, and the Western Governors' Regional Energy Policy Office disagreed with them.

--The Federal Energy Administration said that mitigating socioeconomic impacts of energy resource development would require cooperation and coordination among all Federal agencies, not a massive increase in Federal assistance.

--The Council on Environmental Quality believed that the report did not support our conclusion that the need for additional Federal assistance has not been demonstrated at this time.

We continue to believe that State and local governments should be primarily responsible for providing necessary facilities and services and that the need for additional Federal assistance at this time has not been demonstrated. (See pp. 65 to 72.)

ADDITIONAL GAO COMMENTS ON S. 971
THE INLAND ENERGY IMPACT ASSISTANCE ACT OF 1979
ADDENDUM TO APRIL 24, 1979, TESTIMONY
OF KEVIN BOLAND, ASSOCIATE DIRECTOR
ENERGY AND MINERALS DIVISION

SECTION 1103-DEFINITIONS SECTION

It would be helpful to clarify the following definitions:

Subsection (1) This definition of "Indian tribe" may not include Alaskan Indian tribes or Alaskan tribal groups, as defined in the Indian Self-determination and Education Assistance Act (P.L. 93-638).

This subsection should probably establish a qualifier on the ability of an indian group to effectively administer a comprehensive program under this title.

Subsection (7) "Representatives of energy development industry. . . may be invited to join such teams (assessment teams)".

The inclusion of industry on the assessment team could result in conflict of interest. One possible change is to provide industry with a consultative role. This would eliminate the possible conflict of interest and still make industry a part of the process.

The next line under this subsection directs the governor to appoint both the state and local government representatives to an assessment team. This may not

insure all appropriate local participation. The Congress may also wish to allow local governments to request approval for participation from the Secretary.

Subsection (8) The definition of 'energy resource development' reads ". . . using depletable resources located in the proximity of the extraction of energy resources. . ." This statement precludes generation facilities which are not near its energy source from qualification even though construction of such a facility in a rural area may indeed have an adverse impact on that area.

The last phrase of this subsection reads ". . . and construction of a major energy transportation facility." (emphasis added)

The Congress may wish to further define what would constitute a "major" transportation facility.

SECTION 1104 -ELIGIBILITY OF AREAS

This section provides that a community or area may be designated as an energy impact area if three conditions are met:

"(1) There exists energy resource development which will create a need for new or improved public facili-

ties or public services in the community or area;

"(2) A substantial amount of the energy, produced in such energy resource development will not be consumed in the community or area, and

"(3) There has been within the past five years, or will be within three years significant increases in employment or population, caused by such energy resource development. (emphasis added).

The word significant is not clear. Substantial could mean one-third, one-half, two-thirds, etc. Objective criteria would be desirable.

Similarly, "significant increases in employment" could be defined in terms of relative or actual increases.

The designation of eligible areas is given equally to governors and Indian tribes. This could produce overlapping eligible areas since the governors and Indian tribes are not required to cooperate or coordinate such designations. In addition, there is no requirement for Federal oversight or approval of such designation.

The bill might be amended to outline the jurisdictions of a governor and the governing body of an Indian

tribe and to promote cooperation between tribal and state and local officials.

In subsection (b) the Secretary of Commerce may make an independent determination that an area is eligible for assistance. The purpose of this authority is not clear. Conceivably this provision could be used to provide assistance to an area not severely impacted.

In this section, the use of "the governing body of an Indian tribe" is begun and continued throughout the bill. However, in the definitions section Indian tribe is defined as "the governing body of any tribe. . ." The definition and the usage in the bill should be made consistent.

SECTION 1105-ALLOCATION OF FUNDS

Subsection (a) provides the criteria or basis for allocation. However, the criteria listed are--" (subject to availability of timely data)". It seems questionable to provide certain definitive criteria and then allow the criteria to be irrelevant for the lack of timely data.

The formula developed by the Secretary of Commerce is suppose to include all of the criteria in subsection (a). However, the broad discretionary authority delegated here to the Secretary is not subject to public or Congressional review. Such reviews would check the regulations conformity with Congressional intent.

The need for the separate allocation in subsection (c) for "areas in states which do not qualify for a separate allocation pursuant to subsection (b)" is not apparent. States having low levels of activity which would not qualify under the rest of this Title could be eligible for funding under this section.

This amendment contains various restrictions on and allocations of funds to be used as impact assistance. To enforce these provisions, a section could be added giving the Secretary of Commerce the authority to request such reports, accounting, and rights of inspection as the Secretary deems appropriate. Moreover, we suggest that language be inserted as follows:

> "(a) Each recipient of assistance under this Title shall keep such records as the Secretary shall prescribe, including records which fully disclose the amount and disposition by such recipient of the proceeds of such assistance, the total cost of the project or undertaking in connection with which such assistance is given or used, and the amount of that portion of the cost of the project or undertaking supplied by other sources, and such other records as will facilitate an effective audit.
>
> "(b) The Secretary and the Comptroller General of the United States or any of their duly authorized representatives, shall have access for the purpose of audit and

examination to any books, documents, papers, and records of the recipients that are pertinent to the assistance received under this Title."

Subsection (d) allows the Secretary of Commerce, to use any unspent monies under this Title, to fund directly energy impact areas, states, or Indian tribes. The Congress may wish to define the criteria to be used in distributing such funds.

SECTION 1106-PLANNING AND MANAGEMENT GRANTS TO STATES AND INDIAN TRIBES

This section provides grants for planning and management of the activities necessary to prevent or mitigate the adverse impacts of energy resource development. The word management could be interpreted to mean that the Federal government will pay for costs such as the salary of a city manager or a full time administrator for a mitigation strategy. Congress might want to define the word management, giving examples of when funding would be appropriate.

Subsection (d) only requires coordination with other planning assistance programs authorized by this Act. Since duplication of funding is not desirable, it would be desirable to state that "grants" refers to grants, contracts, and cooperative agreements, pursuant to the Grant and Cooperative Agreement Act of 1977 (41 U.S.C. 501).

It may be desirable to specify that interagency cooperation should take place within the context of the Joint Funding Act of 1974 (42 U.S.C. 4251) and the Office of Management and Budget's Circular number A-111.

Section 1107 requires an energy impact plan and section 1108 requires an energy impact mitigation strategy. Clarification of the relationship between these two mechanisms would be helpful.

SECTION 1107-ENERGY IMPACT PLAN

The Energy Impact Plan under subsection (b) ". . . shall identify -- . . .

> '(2) The specific needs for new or improved public facilities or public service within the designated area due to significant increases in employment or population during the past five years and/or expected to occur in the next three years resulting from the energy resource development, including both immediate needs (those already in existence or developing in less than one year) and long-term needs (those which may not occur until late in the planning period); . . .
> (emphasis added).

This subsection could be made clearer in terms of congres-

sional intent if significant increases were defined in terms of actual or percentage increases.

The section on energy impact plans permits funding during the first year of this legislation without an approved plan or a process whereby a plan would be subject to approval. The Congress may wish to require the Secretary of Commerce to insure that funds spent under this provision are used to properly plan for and to mitigate energy impacts.

SECTION 1108-ENERGY IMPACT MITIGATION STRATEGIES

The Section requires a description of the priority uses "of funding available from Federal, State or local governments, Indian tribes, and private sources..." Congress might want to specify whether Federal funds under this Title are to be used if other Federal or State assistance programs can meet such priority needs.

Provision (a) (3), allows the Secretary of Commerce to use any repayments of loans under this Title after all energy impact needs are satisfied to use these funds "for other adjustment purposes under this Title..." This broad discretionary authority could be clarified or deleted.

Subsection (b) gives energy impact mitigation strategies approval to both the Secretary of Commerce and the Regional

commissions. For consistency of the process, one final authority should be considered. This would mean that plan requirements and authorization would be vested in a single final authority.

This subsection also refers to a "reasonable time" for plan approval. It would be helpful to specify a range of maximum allowable time for approval of plans in order to expedite any assistance under this Title.

SECTION 1109-IMPACT ASSISTANCE TO STATES AND INDIAN TRIBES

This section variously provides grants, loan, loan guarantees, and other assistance to help carry out energy impact plans. There is little evidence in the bill on the desired mix of various forms of assistance. The Congress may wish to set the dollar limits of each type of assistance to each State or other applicable unit. This step would be desirable from the standpoint of maintaining control and oversight over Federal outlays, loan guarantees, etc.

Further, the Congress may wish to add criteria specifying when each type of assistance is appropriate. Although the circumstances have been delineated when grants--rather that loans or loan guarantees--would be appropriate, it appears that grants may be allowed in most circumstances.

Funds to implement mitigation plans have been justified as being intended to "bridge" the period between the increased demand for services and the availability of revenues to support each service. If so, we believe such funds should generally be made available as loans or loan guarantees. This would (1) reduce Federal outlays and (2) avoid subsidizing, at the expense of all taxpayers, those communities which will reap the lasting benefits of energy development.

Moreover, it is important to preserve equity between all potential recipients. If two communities are similarly situated in terms of expected energy development, local finances, and other key factors, it is not equitable to give an outright grant in one case and merely to guarantee a loan in the other case. We understand that some states and localities may face restriction in their ability to borrow at all or to add to current borrowings. Nevertheless, to give grants in these cases and merely to guarantee loans in other cases might discourage governments from taking on more debt.

The Federal government should seek to provide equitable treatment to all energy-affected communities and can further this aim by avoiding incentives which would, in effect, discourage communities from investing in their own future. Of course, reasonable provisions must be available to provide forgiveness of loans and loan guarantees when expected energy developments, and increases revenues, do not mater-

ialize. But the underlying aim should be to provide loans or loan guarantees--rather than grants--wherever possible.

Providing loans or guarantees rather than grants would also help serve more energy-affected communities. The ultimate cost to the Federal government of guaranteeing a $100,000 loan is likely to be much less than the immediate cost of providing a $100,000 grant. Thus, providing grants to some communities necessarily limits the total number of communities that can be assisted. For this reason, too, we favor loans or guarantees over grants.

This section also authorizes the Secretary of Commerce to guarantee loans, and discusses conditions pertaining to such loan guarantees. To strengthen and clarify the bill, the Congress may wish to:

--Impose an absolute ceiling on the maximum amount to be guaranteed for a single borrower or a ceiling which can be exceeded only with Congressional approval.

--Clarify whether the $1.5 billion in principal refers to the amount outstanding at any given time or the cumulative amount lent over the life of the program.

--Specify whether the guarantee would apply to

100 percent of the loan amount, as is presumably the case in the absence of language to the contrary. If a smaller proportion is intended, it should be so stated. Small Business Administration Economic Development Administration, and other guarantees apply to only 90 percent of the loan, and such a limitation may be desirable here.

--Specify the nature of lenders who would qualify for loan guarantees.

SECTION 1110-SPECIAL ASSISTANCE

This Section provides for emergency assistance--even before approval of a mitigation plan--"where such needs cannot be met . . . in a sufficiently timely manner" with other Federal programs or other assistance. Up to 50 percent of the first year's funds and 15 percent of the next 4 years' funds may be provided for this purpose. Given the substantial amounts available for emergency assistance, it may be desirable to define the type of emergency contemplated here--for example, in terms of unusually rapid increase in expected employment or population; and/or to reduce the amount of money available; and/or to require a showing of a conscientious effort to prepare and have approved an appropriate mitigation plan and a convincing explanation of the nature of the emergency. The availability of so much money for areas which do not have an

approved mitigation plan may discourage completion of such plans.

It would be desirable to impose a maximum on the amount of loans available for emergency conditions. Presumably, the limit would be -- at the outside -- 50 percent of all funds during the first year and 15 percent during the next 4 years. But if a lower limit is contemplated, so stating would be desirable.

In Subsection (3) under the loan forgiveness provisions, it should be made clear the conditions under which the Secretary of Commerce may "modify the terms and conditions" of a loan. Unless it is clear that such modification would be considered a default, whereupon the Secretary would step in and purchase the loan, this provision may discourage potential lenders.

This section authorizes emergency planning money in (b). It would be appropriate to clarify under what circumstances Congress feels this is needed.

An area not elibible for assistance under section 1105 because it doesn't meet the tests set forth there, will be eligible under subsection (c) in this section. Clarification of congressional intent is needed here. Otherwise anyone who cannot qualify under this section may qualify by simply applying to the Secretary of Commerce and obtaining approval of the governor or Regional commission.

SECTION 1112 - STATE SHARE OF PROJECT COSTS

This section provides that an annually increasing share of funding to carry out mitigation plans shall be provided by the state. Although a requirement for state matching funds may be appropriate in some instances, in the present circumstance, it may have some unintended deleterious effects, especially in the absence of a requirement that the state maintain its own efforts to ameliorate energy development effects. For example, the increasing share--up to 50 percent by fiscal 1984--may discourage states with bona fide needs but without the requisite matching funds.

Moreover, the matching share is increased each fiscal year regardless when a particular energy development starts. Thus, it would appear that if one development starts in 1980 and another in 1983, by 1984 the state must provide 50 percent of the cost of each, even though the former project is 4 years old--and presumably beginning to generate substantial revenues to the state--and the latter is but 1 year old--and presumably generating few revenues. However, it is expected that ability to contribute to such programs will increase with the life of each project. Thus, if matching requirements are to be retained, they may be related more properly to the age, or maturity, of a project--not to the age of the overall assistance program.

The section further provides that the state eventually demonstrate "An adequate strategy for the recovery of the substantial majority of such funds within a reasonable time or an adequate alternate strategy . . ." (Emphasis added.) The highlighted terms need to be defined for clarity. Moreover, to whom must the strategy be demonstrated?

SECTION 1113 - COMBINATION WITH OTHER FEDERAL FUNDS

This section provides that "funds made available under this section may be combined with other federal funds or used to provide the non-federal portion of costs of any other federal assistance program." State and/or local governments are required to share the costs of various employment and training, income transfer, and other federally assisted programs. The Congress presumably enacted these matching requirements to encourage state/local participation and oversight, to reduce federal outlays, and/or to effect other purposes. These purposes are not necessarily the same in each instance.

Some programs with matching fund requirements may be closely related to this present bill's purpose, and therefore allowing funds under this bill to be used in other programs may further the ends of both. Although there appears to be no legal impediment to such use when clearly provided for in the statute, nonetheless the Congress may wish to provide additional guidance as to the types of

programs where federal funds may be so counted and/or to specify types of programs where such use is not appropriate.

SECTION 1115 - INTERGOVERNMENTAL COORDINATION

This section mandates that the governor or Indian tribe "take appropriate action to ensure full local government and public participation in the development of energy impact mitigation strategies." Some potential for delay in energy impact assistance lies in this public participation requirement unless the nature and scope of public hearings and notice are more fully outlined in the legislation, litigation may arise over the adequacy of opportunities for public participation.

SECTION 1117 - AUTHORIZATION

This section authorizes appropriations of $150,000,000 maximum for each of the fiscal years 1980 through 1984, to be available until expended. The General Accounting Office takes the position that annual authorizations for fiscal year (rather than no year) funds are preferable because such funding provides greater opportunity for congressional oversight.

Senator BURDICK. Our next witness will be Mr. Arthur F. Solomon of Bradley Corp., Rochester, N.H.

STATEMENT OF ARTHUR F. SOLOMON, PRESIDENT, BRADLEY CORP., ROCHESTER, N.H., REPRESENTING ASSOCIATED BUILDERS AND CONTRACTORS, INC., ACCOMPANIED BY JOHN REED, DIRECTOR, GOVERNMENT RELATIONS, ASSOCIATED BUILDERS AND CONTRACTORS

Mr. SOLOMON. Mr. Chairman, I am Arthur Solomon, a member of the Associated Builders and Contractors, Inc., commonly referred to as ABC, and president of Bradley Environmental Constructors, Inc., a firm specializing in municipal treatment facilities located in Rochester, N.H. I am accompanied today by John Reed, director of government relations of ABC.

On behalf of my trade association's 13,000 member contractors, subcontractors, suppliers, and associates, I thank the subcommittee for the opportunity to testify regarding extension of the public works and economic development program.

Mr. Chairman, in the interest of time, I will summarize my remarks and ask my entire statement be included in the record.

Senator BURDICK. Without objection, so ordered. (See p. 350.)

Mr. SOLOMON. Our organization is an association of employers. We are well aware of this Nation's employment problems and thus believe the objectives of the public works program are commendable. However, it should be stated that some of the regulations and methods incorporated into the act are highly inflationary, unrealistic, and incompatible with the traditions of the construction industry.

Mr. Chairman, I will direct my remarks to two aspects of the administration of the Public Works Act which we feel to be highly inflationary without producing compensating benefits.

First, the Davis-Bacon provisions as required under title VII of the act, and second, the minority set-aside guidelines adopted in 1977.

Davis-Bacon has been with us since the early 1930's, at a time of severe depression. It now has become an extraordinary subsidy for a special interest group. Davis-Bacon regulations have caused wage determinations that are not representative of local area wages in a majority of projects constructed in rural areas and many metropolitan areas also.

There are estimates established that Davis-Bacon costs the American taxpayers as much as $2.8 billion a year. We strongly urge that this subcommittee review the purposes for which the Public Works Act was established—a primary goal to provide work for as many individuals as possible. A major step toward that goal can be achieved by eliminating the Davis-Bacon requirements from public works projects.

Minority business enterprises are another issue about which ABC is deeply concerned. ABC has always supported programs to bring minorities into the mainstream of the construction industry. The merit shop contractors have established apprenticeship programs, task training programs, and employment bureaus. In essence, we are totally committed to developing manpower.

We also believe it is impossible to legislate businesses into successful enterprises or to create management talent through set-asides. A much better approach to the problem might be through incentive programs based on tax rebates in Government subsidized housing programs which are negotiated. Utilization of MBE's in bid work places a tremendous uncontrollable burden on the contractor, both financially and through increased over head. Our industry, particularly in the public works sector, has been one of competitive bidding both for generals and subcontractors. Now the Government is recommending that negotiations be made with other than the lowest bidder, with documentation being required at such negotiations. This is completely unfair to those contractors who have come up the hard way and are denied work they have rightfully gained through the competitive bid process.

I might conclude by noting that the Japanese increased their productivity by 8 percent last year, while U.S. business increased theirs by only 0.8 percent. This disparity is not due to lack of ambition on the part of our workers, or lack of initiative on the part of our business managers, it occurs through the process of overregulation, each year adding to the staggering burden of regulations which have neither proved economically viable or produce beneficial results.

In sum, the Association Builders and Contractors support the concept of federally financed public works projects. However, we strongly believe that elimination of Davis-Bacon requirements and a more flexible approach to minority subcontracting will greatly improve the application and cost effectiveness of public works projects.

Thank you, Mr. Chairman. I will be happy to answer any questions you or members of the subcommittee may have at this time.

Senator BURDICK. Thank you very much.

Apart from these two provisions which you referred to, what is your view of the proposed EDA bill?

Mr. SOLOMON. We feel that the EDA bill is an essential part of the construction industry that supports many projects which are a necessity.

Senator BURDICK. Does ABC believe we should have a standby LPW program in the bill?

Mr. SOLOMON. I believe we should add standby provisions to the bill.

Senator BURDICK. Some of the LPW programs are still going on this year. Is that work being performed by contractors under the remaining part of the LPW program adding any steam to the overheating of the economy at the present time?

Mr. SOLOMON. At the present time, it depends upon the area which you speak. There are many areas which are still depressed. We are from one of those areas that is not economically booming. From reading E. & R. reports, you will notice New England stayed rather flat since the recession in 1974 and 1975. In this area we are definitely in need of the public works program.

Senator BURDICK. Is it possible there are other areas that aren't flat?

Mr. SOLOMON. That is very true. Throughout the country, particularly in construction, the South and Southwest and Northwest are really doing very well; they are booming.

Senator BURDICK. My point is is LPW overheating those areas?

Mr. SOLOMON. Yes, because if you go to the employment records of those areas, particularly in the construction industry, you find certain areas, such as Houston, Tex., where they are unable to get workers to fill the private sector jobs, let alone the Government funded ones.

Senator BURDICK. Thank you very much for your testimony.

We will recess until 9:30 tomorrow morning.

[Whereupon, at 3:30 p.m., the subcommittee recessed, to reconvene to 9:30 a.m., Wednesday, April 25, 1979.]

[Statements submitted for the record follows:]



The National Urban Coalition
1201 Connecticut Ave., N.W. • Washington, D.C. 20036 • 202 / 331-2400

TESTIMONY

BEFORE THE

SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

U. S. SENATE

THE NATIONAL PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1979

M. CARL HOLMAN

April 24, 1979

Chairman: John R. Bunting / *President:* M. Carl Holman
Co-Chairpersons: Andrew Heiskell, Aileen Hernandez, Sol M. Linowitz, James M. Roche, Raul Yzaguirre
Vice-Chairpersons: William R. Chaney, Jesse Hill, Jr.
Treasurer: Glenn E. Watts

Mr. Chairman, members of the subcommittee, I am pleased to testify before you today on behalf of the National Urban Coalition. The Coalition, as you may know, combines the energy and vision of labor, business, city government, minority and neighborhood leadership in its efforts to improve the quality of life in our nation's cities. Our network of thirty-five affiliates around the country and our task forces of experts in such fields as employment, economic development, income maintenance and urban education provide us with a strength of purpose rooted in urban communities, informed by both practical experience and theoretical expertise.

The urban and rural practitioners and theorists who have come together to form the Coalition's new Business and Economic Development Task Force are telling us the same thing--that what our depressed urban and rural communities most need is federal assistance in developing coherent and effective economic development strategies at the community level. I am concerned that a newly restructured and reauthorized EDA reflect that need. Unfortunately, the National Public Works and Economic Development Act, now before the Subcommittee, does not adequately do so.

In Chicago's Woodlawn neighborhood there is a commercial strip, 63rd Street, which once provided the residents of that community with 7,000 jobs. That commercial activity not only provided employment in the neighborhood for neighborhood residents, but it also gave that community a vital center.

When, by 1970, the number of available jobs plummeted to 500, the result was not simply the commercial disintegration of Woodlawn, it was the disintegration of the entire community. Our Coalition affiliate, The Woodlawn Organization, is now helping to put the neighborhood back together again, and it has generated some 600 additional jobs since it began to do so. But the point is that we must give some care to economic development at the sub-local level if we wish to provide the spark necessary for revitalization of our distressed communities. Not only must we target this economic development assistance to jurisdictions in which there is substantial distress, we must also focus all the tools at our disposal under this legislation --planning and technical assistance, capacity building, project funds, loans and loan guarantees, and so on -- on solving economic dysfunctions at the community level. This can be achieved through the use of intermediaries like state, local or regional development entities. But without clear direction from the federal government that the community is the level on which we wish to build our national economic development policy, I fear we will see a continuation of business as usual in which public capital is used to aggravate already-serious imbalances in state and local economies.

Federal economic development programs have too often been used to support projects that would have been undertaken by the private sector even without public assistance. The reason lies, I think, in the seductive lure of the ribbon-cutting ceremony--where the bigger the project, the more certain its success, the more eager public officials are to

participate. Unfortunately, scarce public resources have too often been used merely to inflate the profitability of ventures that would have succeeded anyway.

Today as we discuss a measure which forms the very cornerstone of our national development policy, it is appropriate to draw clear lessons from the experience of the past 20 years. The foremost of these lessons, it seems to me, is that we must immediately establish a more equitable and efficient distribution of public development funds between large scale development (often in urban central business districts), and that other, more complex and perhaps less visible form of development which takes place on the level of the individual neighborhood or rural community. This redistribution of assistance from the haves to the have nots is essential - not only because there is increasing evidence that technical and financial support of such activity is the most efficient use of public capital, but also because it is small, community scale development which ultimately determines the vitality of our national economy.

The common wisdom today is that the economic development policies we have, as a nation, been pursuing are basically sound, that what dysfunctions exist are attributable to the low funding levels enjoyed by existing programs or to a lack of coordination between those and other programs administered on the federal, state and local levels. In fact what we badly need are some new approaches to economic development--approaches

which provide venture and equity capital to young, small, independent firms in distressed areas, which provide technical and other forms of capacity-building assistance to individual entrepreneurs and development intermediaries, and which foster the decentralization of the system for distributing that assistance. We need a national economic development program which is strictly targeted to those communities which are most in distress, which are experiencing the most poverty, unemployment and the slowest economic growth. And we need to make sure that the development projects we fund under such a program not only serve the needs of those communities -- by increasing local employment opportunities, for example -- but also assist the minority business sector which continues to operate at a severe competitive disadvantage.

Before I turn to the legislation proposed by President Carter and offer some specific comments on the proposal, I want to expand on the three basic approaches to economic development which we are advocating:

1) Venture and equity capital to young, small, independent firms in distressed areas. A study recently completed by David Birch of MIT has some striking findings which, I believe, indicate where we ought to be targeting our federal economic development dollars. Birch found that young firms--those four years old or less--are generating about 80 percent of all new jobs and that this pattern held true across all sectors of the economy and all regions. But more important, small firms, with 100 or fewer employees, generated 81.5 percent of all new jobs in this country, virtually all new jobs

in the Northeast and 70.2 to 84.4 percent of new jobs in the other regions. Well over half of the jobs--56.2 percent--were created by independent firms of this size. Large corporations, on which conventional economic development policy has relied, generate few new jobs. Furthermore, because of their financial strength, they are the first to redistribute their operations out of declining areas and into growing ones. The public policy problem is that the very firms which generate the most jobs are the firms which, because of their volatility, are the least bankable. If, in addition, they are firms operating in distressed communities, the problem of access to capital for business growth becomes paramount. We are talking not about the cost of capital but about the access to capital; what we are hearing from healthy businesses in distressed communities, many of them minority firms, is that they can't get the capital, not at any price.

2) Technical and other forms of capacity building assistance to individual entrepreneurs and to development intermediaries. One of the reasons the firms can't get the capital is that it costs the financial institution too much to process it. Transaction costs--the staff costs incurred in acquiring needed information, in making sound underwriting decisions, and in providing follow-up guidance and technical assistance--narrow the margin of profit for financial institutions and can make otherwise sound deals impractical. The Economic Development Center at Citibank in New York City has, since 1973, pursued

a policy of giving loans to businesses which require more than the normal amount of time and effort.

More financial institutions, state, local and regional development agencies and community-based corporations should be encouraged to provide the sort of services furnished by the Economic Development Center. In this area, public policy should have two aims: to increase the competitive success of individual entrepreneurs; and to improve the capacity of development entities to help these entrepreneurs succeed.

3) Decentralization of the system for delivering that assistance. My last point follows directly from the second. The entrepreneur must have ready access to information, to managerial assistance and to advice in packaging a deal. Even assuming that there is a representative of EDA in the vicinity, the agency does not operate efficiently when it dispenses technical assistance directly. Rather, it should pursue a strategy of strengthening state, local and community development agencies and organizations so that available assistance will not end with the termination or revision of the particular program under which it was given. One of the complaints we hear from our affiliate in Pasadena, for example, is that the nearest EDA representative is so far away that simple information is often extremely difficult to obtain.

This decentralization should not end with technical assistance. The development authority which helps package the deals should be the means whereby public funds are channeled into the community. It should be the business of EDA to oversee this effort, to make sure it is not being abused and to make sure that public funds are going to stimulate economic activity where it would not otherwise occur. We would like to see decentralized community-oriented development made a fundamental principle of our national economic development stategy.

One other theme: we would like to see community-based development organizations--not just community development corporations, as is sometimes narrowly construed--written into this legislation. They know the needs of the distressed communities in which they work and they know the opportunities. They know how best to help a bankable firm in their community--the technical assistance they offer can be situation-specific.

Let me give you an example, drawn this time from a rural area, of how a community-based institution provides development assistance as part of its commitment to community revitalization. The Delta Foundation--whose executive director, Charles Bannerman, is on the Coalition's Task Force--was founded in 1969 when 14 community-based organizations pooled their resources to provide increased economic development opportunity to the impoverished Mississippi delta region. In 1970, 70 percent of rural blacks in Mississippi were living below the poverty line. During the last two years the Foundation has provided $250,000 in grants to leverage $5.2 million in federal, state and private funds and it has made loans and

other investments to promote economic development. The Foundation's two,for-profit spinoffs are Delta Enterprises, which provides over 400 labor intensive-jobs and generates sales in excess of $7 million dollars, and Delta Development and Management Corporation, which provides venture and equity capital for start-up ventures in distressed communities. The community-based organizations which founded Delta continue to guide its operations and help identify development needs.

I have cited a stellar example of a community development organization, of course, but there are many others quietly at work. Support of their efforts not only targets public funds in the communities where they are most needed, but also promotes use of those funds where capital would otherwise not be used for economic development. In a recent Rand study on the effectiveness of federal programs, economic development funds given to cities were found to result in no net increase in the total amount spent for economic development because the cities tended to use those funds on projects they would have undertaken anyway. The same, I am sure, can be said of the states. If cities and states were encouraged to pursue community development strategies and if community based organizations were involved both in the design of state and local projects and in the delivery of those projects, then the incentive would be increased to spread federal economic development funds over more small projects and to channel public funds to undertake development activities for which other capital is unavailable.

With this rather lengthy preamble, let me turn to the legislation at hand. I have a list of suggestions, and while time will not permit full exposition here, my staff and

representatives of the Coalition Task Force will be happy to provide your staff with more detail.

1) The findings and purpose of the bill read as random and dissociated observations and objectives. What is needed here is a coherent vision of the market dysfunctions we are attempting to solve with public funds. And--I strongly urge--an explicit endorsement of community economic development. For example, Section 2(b) (2) should specifically include community-based, private nonprofit development organizations in its exhortation on the coordination of public and private development efforts, and Subsection (b) (3) should encourage economic development planning based on the assessment of needs at the community level.

2) We were pleased to note the inclusion of net employment loss as one of the distress factors under Section 4(a) (1) because we had stressed the need to take into account not only poverty levels and unemployment rates, but also growth lag. However, the Committee should strongly consider requiring that more than one distress factor be present for eligibility. This would tighten targeting and it would help prevent public funds from going to areas which have high poverty or unemployment but which are already growing rapidly. We would not like to see public funds adding to present imbalances in economic growth.

Title I, planning and technical assistance

3) Private, nonprofit community-based organizations should be

included as eligible recipients of capacity building assistance (Section 101 (a)(1)) and, as in the first section of the bill, this title should explicitly include, as an objective, response to community economic development needs. "Sublocal" or "community" organizations and strategies should be written into much of this title and later titles as well.

4) Plans prepared with EDA funds (Section 101 (b)) should be oriented towards distressed portions of eligible areas. Plans and strategies prepared with EDA funds should squarely address community economic development problems--by assessing how the jurisdiction's taxing, regulatory and spending powers now affect community economic development efforts and by defining new ways to use these powers in support of such development in the future.

5) Under Section 102 (a), states should be encouraged to become more involved in sublocal development strategies, to solicit community participation in state plans and to provide assistance and cooperation to community economic development programs.

6) Under Section 102 (c) local development plans should reflect consultation with and, wherever possible, accommodation to representatives of community-based organizations. Language in the bill encouraging participation by "representatives of the business community, the unemployed and underemployed and socially and economically disadvantaged individuals" should be broadened to include "representatives of community-based organizations."

7) Matching requirements for nonprofit community-based organizations applying for EDA planning funds (Section 105 (b)) should be waived under hardship circumstances.

8) This title should better emphasize increasing the capacity of state, local and private nonprofit community-based organizations to provide technical assistance and should relate provision of technical assistance to the provision of direct loans under Title III (see below).

Title II Public works and other economic development grants

9) Section 208 (b) declares that no more than five percent of the authorization under Title II should go towards Section 203 (c), projects which provide useful work for the disadvantaged and long-term unemployed. We emphatically disagree with the weighting of priorities in this section and urge that the Committee designate for this section 25 percent of the funding under Title II. Priority under this subsection should be given to "public works impact projects that include maintenance of basic facilities, energy conservation or community revitalization"--"community revitalization" would include historic preservation and a host of other improvement activities. By contributing to the quality of life in the communities which receive them, the projects would contribute to the ability of those areas to attract new business. Further, they would promote intensive use of labor at a time when economic recession is widely predicted.

10) Under the financing of revolving loan funds (Section 203 (d)) the language should be changed to read "to make direct loans, investments, and to guarantee loans made by other lenders to private firms." We suggest that equity investments be included for reasons already given above and that safeguards be included under this section so that investment funds own no more that 49 percent of a given firm. We also suggest that development funds be made available to firms under this subsection in exchange for royalty rights and that "dividends, sale of stock and royalties" be added to language under (d) (2).

11) The Committee should consider a specific set aside for private, nonprofit organizations under this title and under Title I. We would suggest that five percent of the total funds under each title is an appropriate commitment to community-based organizations in the first year.

12) We applaud Section 204 (b) (3) which sets certain hardship conditions under which private, nonprofit groups are eligible for exemption from matching provisions.

13) We concur with the criteria which the Secretary is to consider when designating assistance under this title, but suggest that provisions be added to Section 206 (a) similar to that included under 306 (a): the degree to which capital is not otherwise available on terms adequate to achieve the purposes of this title for fundable activities.

14) Funds under this title should be set aside in the form of matching funds to capitalize state, local and private, nonprofit development finance institutions. These institutions would, in turn, make available both equity and venture capital to smaller, newer businesses unable to obtain capital in the private market, and short term debt to sound firms in need of financial reorganization because of corporate divestiture. I would also suggest that the matching ratio vary to reflect the relative financial strengths of the institutions being funded. One way of injecting this kind of progressivity would be to adopt a ratio of 1:2 for states, 1:1 for localities and 5:1 for private, nonprofit groups.

15) Firms receiving EDA assistance should be limited to two eligible groups: first, small firms with fewer than 1,000 employees and annual sales below $25 million, with priority to be given to firms four or fewer years old; and, second, essentially sound firms in economic distress which need only restructuring or bridge financing to stay in business.

Title III Development financing

16) We strongly suggest that interest subsidies be eliminated from the development tools authorized under this title (Section 303). Roger Vaughan, an economist at Citibank, is one of those experts who finds interest subsidies to be almost a complete waste of public funds. As we indicated above, most studies show that the problem in distressed communities is not the cost of capital--it is the access to capital. Public funds

would be put to better use if they were committed to demonstration programs under Title IV and designated for equity experiments. In one possible demonstration project, subsidy money might be tied to performance so that, for example, a firm would pay market rate but for every ten jobs it created it might receive a reduction in interest.

17) Good commercial bankers, life insurance companies and venture capitalists will follow money they have at risk. EDA does not adequately provide technical assistance before and after it commits its funds and this lack, in part, accounts for the high EDA default rate. We understand that a recent internal EDA study found that 90 percent of EDA's working capital loan guarantees are in default. If this is true, it provides greater incentive to post financing technical assistance for recipient firms. Under Section 301, technical assistance should be mandated for all firms receiving direct EDA loans.

18) The guaranteed loan section (302 (a)) should provide for "loans and/or the debt component of convertible debentures." Convertible debentures, which provide the option of converting a loan into stock in a company, are not as good as pure equity but they are preferable to pure debt. The guarantee under this section would back the loan portion of the convertible debenture and would drop as soon as the guarantee converted to stock.

19) We would suggest public and private, nonprofit development institutions be encouraged under this title to develop capability in risk assessment. Additions to Section 306 might include the requirement that the Secretary shall encourage 1) state, local and private, nonprofit development institutions to provide EDA with technical analysis concerning local credit availability;

2) the chief elected official in eligible areas to involve to the maximum extent practical other development organizations in the review of applications for assistance and in the development of recommendations to the Secretary concerning appropriate forms of financial assistance for individual projects; 3) involvement of these institutions in the provision of credit under this title, subject to regulation.

Finally, a general point which should not be deemed less important for having been mentioned last:

20) The Committee should insist that this legislation set specific goals and strategies for assisting minority businessmen. Most minority businesses are small and many are located in the distressed communities which would be eligible for EDA assistance; such a provision would merely affirm the legislation's intent.

This measure should, in the end, designate public funds to leverage in the private sector the capital private enterprise needs--but cannot now obtain--to revitalize disinvested urban and rural areas. Neighborhood or community-scale economic development is the most intricate, the most complex and the least visible stratum of development activity and for this reason it has been given short shrift by policymakers. And yet it is the very kind of economic development which will generate profitable investment opportunities, expanded local tax bases, increased employment opportunities especially for people who live in distressed communities--in short a rebirth of the very communities which Congress intended should benefit from previous federal development programs.

I would hope community economic development would eventually come to be synonymous with national economic

development, that we would begin to recognize that only at the most local level can we begin to infuse our economy with the resilience it needs.

Finally, so long as there are Woodlawns or Mississippi delta areas we will not be able to talk about a healthy national economy. We cannot dismiss our disadvantaged communities. With this reauthorization of EDA we have a significant opportunity to redress the imbalance reflected in past national policies.

SUMMARY STATEMENT OF F. HOWARD McGUIGAN, LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, BEFORE THE SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT, OF THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS, ON THE NATIONAL PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT, (S. 914)

April 24, 1979

The AFL-CIO is pleased to have this opportunity to support an expanded federal effort to generate jobs and strengthen the economy through public and private investment in areas with serious and chronic problems of unemployment, poverty and economic distress.

We are also pleased that the Economic Development Administration (EDA) will be given more tools to work with, as we have been continually impressed with the agency's ability and success over the past 14 years in administering the 1965 Act, its many amendments and the two rounds of the local public works program.

There are, however, some sections of the bill that require modification, change or clarification. And we would also urge this Committee to add authority for a standby $4 billion public works construction program which would be automatically triggered into action in the event of an economic downturn.

A major question we have with S. 914 concerns the safeguards against subsidizing plant relocations and plant piracy. The 1965 Act states, in the Statement of Purpose, "...that under the provisions of this Act new employment opportunities should be created by developing and expanding new and existing public works and other facilities and resources rather than by merely transferring jobs from one area of the United States to another." Such language is not included in the "Findings and Purpose" of S. 914. We believe this is a serious omission and urge it be corrected.

Along the same lines, the Non-Relocation Provision (Section 515 of Title V) states that "Direct financial assistance under this Act shall not be extended to assist establishments relocating from one area to another..." (Underlining added)

In view of the many different types of assistance available under the bill, the term "direct" is vague and the section should clearly indicate that no assistance of any kind may be so used.

Similar safeguards should also be written into the bill to preclude any assistance to firms engaged in labor disputes.

Title III, the Development Financing authority represents a major and welcome new element to the legislation and we support it with the following modifications:

Section 302(b)(1) states that the Secretary shall not guarantee a loan if the interest rate is determined by the Secretary to be "excessive." That is an indefinite criterion and since the Government would fully guarantee 90 percent of the loan amount, the risk of loss of such loans becomes negligible. The Secretary should be required to establish maximum interest rates for guaranteed loans at interest rate levels designed to meet the market.

In Section 305(a)(1), with regard to the selection of applicants, a more definitive commitment to the employment of residents of the affected area should be required. Part of the applicant selection criteria should be the degree of commitment to employ area residents, the number and types of jobs, and wage levels.

Section 305(b)(4) should also include, as part of the selection criteria, the availability of resources to train area residents for employment while a project is being constructed -- in collaboration with prospective employers and Department of Labor programs when possible.

Section 518 pertaining to "anti-inflationary guidelines established by the President," is inappropriate, since the Congress has chosen not to give the President such authority through regular legislative channels.

We would also like to alert the Committee to some potential adverse effects on the nation's economic development effort stemming from the current international trade negotiations. It is possible that, aid provided under this Act could be considered a subsidy in violation of one of the international trade agreements. We urge thi Committee to make sure that legislation to implement this agreement does not in any way impair the economic development effort.

The standby program we recommend would require an overall budget authorization of at least $4 billion -- half the amount would be triggered into effect if the national unemployment rate rises to an average of 6 percent or more in a three-month period and the remaining half to be triggered into effect at a 6.5 percent level.

We would like to emphasize that the trigger rate we recommend represents a recession level of unemployment. Since World War II such rates of joblessness have occurred only in recessions and during the slow and lagging recovery from the last deep recession.

If such a standby program had been on the books during the deep 1974-75 recession, job creation stimulus would have begun to work at the end of 1974, and some of the sharp rise in joblessness -- to 9 percent by mid-1975 -- could have been blunted.

Moreover, the lessons learned under Round I and the improvements made in Round II clearly demonstrate that:

1. Public works jobs programs can start up quickly.
2. Projects could be small and of short duration.
3. The funds could be targeted to the areas that are most in need.
4. There continues to be a huge backlog in a wide range of facilities that are essential and welcome additions to the nation's capital stock.

Many local governments continue to experience economic stagnation and decline. These communities were particularly hard hit by the last recession and have still not recovered.

In February 1979, for example, when the national average rate of unemployment was 5.7 percent, 56 metropolitan areas recorded unemployment rates of over 7 percent and 19 of these metropolitan areas had unemployment rates of 8.5 percent or more. (See Table I)

The importance of promoting continued economic recovery of such distressed communities, while protecting them against recessions cannot be denied. The economic stagnation or deterioration of these areas brings with it underutilization and abandonment of private and public structures, a decline in the value of investments and a dwindling tax base. Continued unemployment and underemployment breeds frustration, anger and despair, and gives rise to crime, drug addiction and other anti-social behavior. It promotes an unliveable environment, leads to further economic deterioration and added barriers to investment.

Let me cite one more piece of evidence of need for an expanded economic development effort and a triggered, standy program. Appended to this statement (Table II) is data showing the dismal record of state and local public construction over the past ten years generally,

46-633 O - 79 -- 20

as well as the impact of recession on such investments.

According to the Commerce Department, in eight out of the past ten years, the real volume of outlays for state and local public construction declined. In 1978, state and local governments spent $35.7 billion on public construction (including federal aid). After adjusting for inflation, this represents a rate 30 percent below 1969 levels. In real terms, on a per person basis, these figures show that public construction represented $151 per capita in 1969, compared with only $99 last year.

As this Committee knows, the AFL-CIO has a long and consistent history of support for programs which create jobs, meet the nation's public investment needs and target aid to the people and the areas where it is needed most. We have learned from experience that even when the economy is performing well, many parts of the nation are left behind. When the economy is in trouble, conditions in these areas deteriorate and hardship and deprivation become even more acute.

By continuing and strengthening the basic development assistance programs and providing a mechanism to target additional help to such areas in the early stages of an economic downturn, longer-term economic progress can continue and the economy would receive needed job-creating, recession-fighting stimulus.

Thank you.

STATEMENT OF F. HOWARD McGUIGAN, LEGISLATIVE REPRESENTATIVE,
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT,
OF THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
ON THE NATIONAL PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT,
(S. 914)

April 24, 1979

The AFL-CIO is pleased to have this opportunity to support an expanded federal effort to generate jobs and strengthen the economy through public and private investment in areas with serious and chronic problems of unemployment, poverty and economic distress.

The National Public Works and Economic Development Act (NPWEDA) would continue programs of the 1965 Public Works and Economic Development Act. These programs have proven their value to the nation and the local areas directly served. Most of the changes and new elements contained in S. 914 represent forward steps in streamlining and enhancing a fundamentally sound program. We are pleased that the Economic Development Administration (EDA) will be given more tools to work with, as we have been continually impressed with the agency's ability and success over the past 14 years in administering the 1965 Act, its many amendments and the two rounds of the local public works program.

There are, however, some sections of the bill that require modification, change or clarification. And we would also urge this Committee to add authority for a standby $4 billion public works construction program, which would be automatically triggered into action in the event of an economic downturn.

Rounds I and II of the Local Public Works program, developed in this Committee and administered by the EDA, was a key factor in pulling the economy out of the deep 1974-75 recession. The prolonged and difficult struggle involved in enactment of that emergency measure -- and the program's huge success once enacted -- points conclusively to the need and desirability of having such a program on the books and ready to go in the earliest stages of any decline in the economy. Thus, by strengthening the basic EDA economic development effort and by providing the agency with standby public works authority, Congress would be enacting a measure to meet these pressing economic and budgetary issues:

1. The basic and fundamental economic development problems of particular depressed areas and regions of the nation;

2. An overall economic outlook that is full of uncertainty and potential dangers; and

3. The fact that there would be little or no impact on the projected budget deficit -- unless a downturn occurs and the added stimulus is needed.

A major question we have with S. 914 concerns the safeguards against subsidizing plant relocations and plant piracy. The 1965 Act states in its Statement of Purpose, "...that under the provisions of

this Act new employment opportunities should be created by developing and expanding new and existing public works and other facilities and resources rather than by merely transferring jobs from one area of the United States to another." Such language is not included in the "Findings and Purpose" of S. 914. We believe this is a serious omission and urge it be corrected.

Along the same lines, the Non-Relocation Provision (Section 515 of Title V) states that "Direct financial assistance under this Act shall not be extended to assist establishments relocating from one area to another . . ." (Underlining added)

In view of the many different types of assistance available under the bill, the term "direct" is vague and the section should clearly indicate that no assistance of any kind may be so used.

Similar safeguards should also be written into the bill to preclude any assistance to firms engaged in labor disputes.

Moreover, the term "assistance" is not consistently applied in the various safeguard provisions. For example, Section 514 refers to "all assistance;" Section 515, "Direct financial assistance;" and Section 517, "Any program or activity receiving Federal financial assistance . . ."

Title III, the Development Financing authority represents a major and welcome new element to the legislation, and we support it with some modifications. Providing selective and targeted private sector assistance in a coordinated and adequately safeguarded manner will encourage the modernization, expansion and building of

businesses in economically distressed areas, will increase employment opportunities for local residents and contribute to the overall economic health of the nation.

The Title III Development Finance program in enhanced by the up-front grant provision of Section 203(g), which permits capital facility grants for as much as 15 percent of the cost of a development or adjustment project which otherwise would not be undertaken.

Section 302(b)(1) states that the Secretary shall not guarantee a loan if the interest rate is determined by the Secretary to be "excessive." That is an indefinite criterion. Since the Secretary may subsidize up to 7 percent of an interest rate, the lender would push hard for high interest rates, and the borrower could be induced to agree because he would still pay a net below-market rate, with the Government paying the balance.

Since the Government would fully guarantee 90 percent of the loan amount, the risk of loss of such loans becomes negligible. The Secretary should be required to establish maximum interest rates for guaranteed loans from time to time, at interest rate levels designed to meet the market.

In Section 305(a)(1), with regard to the selection of applicants, a more definitive commitment to the employment of residents of the affected area should be required. Part of the applicant selection criteria should be the degree of commitment to employ area residents, the number and types of jobs and wage levels.

Section 305(b)(4) should also include, as part of the selection criteria, the availability of resources to train area residents for employment while a project is being constructed -- in collaboration with prospective employers and Department of Labor programs when possible.

Section 518, pertaining to "anti-inflationary guidelines established by the President," is unnecessary and inappropriate. Since the Congress has chosen not to give the President such authority through appropriate legislative channels, such a provision has no place in this legislation.

We would also like to alert the Committee to some potential adverse effects on the nation's economic development effort stemming from the current international trade negotiations. It is possible that, depending upon interpretation, aid provided under this Act could be considered a subsidy to exports or a subsidy that impairs imports, and thereby be in violation of one of the international trade agreements that the Administration will soon present to the Congress. We urge this Committee to make sure that legislation to implement this agreement does not in any way impair the economic development effort.

The standby program we recommend would require an overall budget authorization of at least $4 billion -- half the amount would be triggered into effect if the national unemployment rate rises to an average of 6 percent or more in a three-month period and the remaining half to be triggered into effect at a 6.5 percent level.

Such a trigger rate represents a recession level of unemployment. Since World War II such rates of joblessness have occurred only in recessions and during the slow and lagging recovery from the last deep recession.

If such a standby program had been on the books during the deep 1974-75 recession, job creation stimulus would have begun to work at the end of 1974, and some of the sharp rise in joblessness -- to 9 percent by mid-1975 -- could have been blunted.

Along those lines, we would like to note that hearings began on the original emergency accelerated public works jobs bill early in 1975 and it passed Congress in May of that year. Yet, at a time when unemployment hit the highest levels since the depression of the 1930's, the measure was vetoed. The next attempt by Congress in January 1976 was also vetoed and Round I -- the Public Works Economic Development Act of 1976 -- did not get off the ground until Congress succeeded in overriding a third presidential veto in July 1976. The appropriations bill was enacted in October 1976 -- almost three years after the "official" start of the recession.

According to the latest estimates on the Local Public Works Program the $6 billion in approved projects are expected to generate a total of 110,000 direct on-site jobs, 66,000 jobs in firms and industries providing building materials and supplies, and 249,000 additional jobs as the added income of these workers creates additional sales, production and incomes. The total -- 425,000 job years -- represents an average cost of $14,000 per person year of employment. These jobs and dollars represent not costs, but

investments in people and facilities that add to the nation's productive potential. As such, they represent a valuable tool for creating jobs and needed public investments without involving any added risk of inflationary pressures.

For example, the two types of projects that received the major portion of the Local Public Works funds under Round II were: (1) repairs and construction of water and sewer systems essential to long-range economic development; and (2) projects involving street, road, bridge and railroad bed repairs and rehabilitation. These projects were quickly started and provided immediate jobs, as well as public improvements essential to growth, development and productivity. Moreover, if such a program were on the books on a continuing basis, local communities would be encouraged to keep up-to-date inventories of their public facility needs, and projects could be approved and jobs created in an even more timely fashion.

Recent experience has also demonstrated conclusively that the traditional arguments of the opponents of these programs are invalid. Time and again opponents have charged that these programs take "too long to start up," "too long to complete," and "waste taxpayer's money on make-work projects."

The lessons learned under Round I and the improvements made in Round II clearly demonstrate that:

1. Public works jobs programs can start up quickly. Except for isolated incidents, decisions on applications were made within 60 days and construction started within 90 days.

2. Projects could be small and of short duration. The average project funded under Round II was under $500,000 and 62.5 percent of the projects were expected to be completed in less than one year and the average duration was only 10.4 months.

3. The funds could be targeted to the areas that are most in need. The average unemployment rate for areas receiving Round II funds was 9.4 percent.

4. The number of applications received and the types of projects funded indicated that there continues to be a huge backlog in a wide range of facilities that are essential and welcome additions to the nation's capital stock. For example, within 45 days of the final approval of the $2 billion Round I Act, the Economic Development Administration received 25,000 project proposals totaling $24 billion -- from schools, bridges, libraries and port facilities, to fire stations and water and sewer lines.

Many local governments continue to experience economic stagnation and decline. These communities were particularly hard hit by the last recession and have still not recovered. Typically, these distressed areas are burdened with a high concentration of needy persons such as the poor and the unemployed, particularly young unemployed blacks.

According to a study undertaken by Richard T. Nathan and James W. Fosset of the Brookings Institution, between the period 1960 and 1975 the well off cities continued to be well off, and cities experiencing problems were unable to solve them. And, among the cities in the "worse-off" category, 70 percent were in worse condition in 1975 than in 1960.

An examination of unemployment data for the nation's metropolitan areas provides further insights into the continuing economic problems. The most recent figures (January 1979) show that there still is a large number of areas with extraordinarily high rates of unemployment. In February 1979, when the national average rate of unemployment was 5.7 percent, 56 metropolitan areas recorded unemployment rates of more than 7 percent and 19 of these metropolitan areas had unemployment rates of 8.5 percent or more. (See Table I.)

The importance of promoting continued economic recovery of such distressed communities, while protecting them against recessions, cannot be denied. The economic stagnation or deterioration of these areas brings with it underutilization and abandonment of private and public structures, a decline in the value of investments and a dwindling tax base. Continued unemployment and underemployment breeds frustration, anger and despair, and gives rise to crime, drug addiction and other anti-social behavior. It promotes an unliveable environment, which leads to further economic deterioration of neighborhoods and added barriers to investment.

Let me cite one more piece of evidence of need for an expanded economic development effort and a triggered, standby program. Appended to this statement (Table II) is data showing the dismal record of state and local public construction over the past ten years generally, as well as the impact of recession on such investments.

According to the Commerce Department, in eight out of the past ten years, the real volume of outlays for state and local public construction declined. In 1978, state and local governments spent $35.7 billion on public construction (including federal aid). After adjusting for inflation, this represents a rate 30 percent below 1969 levels. In real terms, on a per person basis, these figures show that public construction represented $151 per capita in 1969, compared with only $99 last year.

This decline in public construction, especially at a time when unemployment among construction workers is almost twice the national average, points up the need to provide a continuing investment in the nation's public facilities and the people who build and use them.

As this Committee knows, the AFL-CIO has a long and consistent history of support for federal programs which help create jobs, help meet the nation's public investment needs and target aid to the people and the areas where it is needed most. We have learned from experience that even when the overall economy is expanding and performing well, many parts of the nation are left behind in poverty and unemployment. When the economy is in trouble, conditions in these areas deteriorate further, and hardship and deprivation become even more acute.

By continuing and strengthening the basic development assistance programs and providing a mechanism to target additional help to such areas in the early stages of an economic downturn, longer-term economic progress can continue to be met and the economy would at the same time receive needed job-creating, recession-fighting stimulus.

Thank you.

Table I

Unemployment by Selected State
and Metropolitan Areas

February 1979

STATE AND AREA	UNEMPLOYMENT
ARKANSAS	7.3 %
Fort Smith	10.0
CALIFORNIA	7.0
Bakersfield	10.0
Fresno	10.0
Modesto	15.2
Salinas-Seaside-Monterey	12.5
Stockton	13.2
MASSACHUSETTS	6.6
New Bedford	10.1
MICHIGAN	8.2
Muskegon-Norton Shores - Muskegon Heights	10.2
NEW JERSEY	8.3
Atlantic City	12.3
Jersey City	12.1
Long Branch - Asbury Park	9.4
Paterson-Clifton-Passaic	9.9
Vineland-Millville-Bridgeton	12.2
PENNSYLVANIA	7.5
Altoona	9.7
Johnstown	9.8
Northeast Pennsylvania	9.3
Williamsport	9.6
WASHINGTON	8.5
Spokane	9.4
Tacoma	8.6

SOURCE: Bureau of Labor Statistics, U.S. Department of Labor

TABLE II

State and Local Government
Outlays for New Construction

Year	State and Local Outlays for New Construction (Billions of Dollars)	Real State and Local Outlays for New Construction (Billions of 1972 Dollars)	U.S. Population (Millions)	Local Outlays for New Construction Per Capita (1972 Dollars)
1969	$24.7	$30.7	202.7	$151.45
1970	24.8	28.4	204.9	138.60
1971	25.9	27.4	207.1	132.30
1972	26.1	26.1	208.8	125.00
1973	28.1	26.1	210.4	124.04
1974	33.7	26.6	211.9	125.53
1975	34.6	24.9	213.6	116.57
1976	31.6	22.2	215.1	103.21
1977	30.4	20.2	216.8	93.17
1978	35.7[e]	21.6[e]	218.5[e]	98.86[e]

Note: Outlay figures include grant-in-aid funds from the Federal Government.

e -- Estimate based on data for first 3 quarters.

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, Government Division.

THE JOB GENERATION PROCESS

by

David L. Birch

M.I.T. Program on Neighborhood and
Regional Change

Cambridge, Mass.

1979

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THE JOB GENERATION PROCESS

SUMMARY

As our economy becomes more complicated, and as we strive to guide that economy in directions that will make it most productive for those who depend upon it for their livelihood, we must understand its inner workings better. In particular, we must understand how the activities of individual firms combine to create aggregate changes. For it is individual firms, not some abstraction called "the economy," that generate jobs, export products, utilize natural resources, and through their location decisions, determine settlement patterns in this country.

We have known very little about how the parts of the economy fit together to create a whole. Our focus has been either on the whole, and aggregate measures of it (like the GNP and its components), or on the individual firm as the unit of analysis, without reference to how firms combine to create the whole. Input/output analysis is one of the major exceptions to this generalization, striving as it does to relate transactions between businesses to the overall levels of activity in the economy. Welcome as this innovation has been, it suffers (through no fault of its own) from out-of-date data, and it does not trace its analysis back to the individual firm -- only to fairly large aggregations of firms trading with each other

as blocs.

Our inability to understand the gap between micro and macro is now seriously hampering our efforts to develop economic policies that will generate jobs for the people and places that need them without causing inflation. We know very little about who generates jobs, where they generate them, who controls those jobs, and who is thus most likely to respond to economic development incentives. In the absence of such knowledge, our approach has usually been to stimulate whole economies with such shot-gun-like policies as tax incentives and easy access to money and public works programs. This can be a very expensive and inflationary strategy if, in fact, most of the recipients do not use the incentives to increase employment and/or productivity. What we need, and have lacked, is the ability to target our incentives to those who can make good use of them without wasting taxpayers monies on those who cannot.

The project summarized in this brief paper represents an effort to bridge the gap from micro to macro, and having bridged the gap, to begin to understand the job generation process. We have approached this problem by creating a data file on each of 5.6 million business establishments. Collectively they encompases about 82 percent of all private sector employment. For each establishment, we know, for four different points in time (1969, 1972, 1974 and 1976) the establishment's size, age, 4-digit SIC code, corporate affiliation, location, and sales. By comparing these items over time for the same establishment, we are able to define and measure the processes by which change takes place (new formations, expansions, contractions, dissolutions, and movements) for each establishment. By aggregating establishments in any given place, we can, for the first time, describe in considerable

46-633 O - 79 -- 21

detail how economic change occurs in that place. Thus, in a sense, we have developed an "economic microscope" that permits the policy maker to look beneath the surface, to see what is going on at the "atomic level," and presumably to develop more rifle-like policies that will be in harmony with the observed inner workings.

Our first steps, summarized in this initial report, were aimed simply at understanding the structure of the job generation process. We were interested in answering obvious initial questions. Who generates jobs, and who destroys them? Do the rates of gain and loss vary from place to place or over time? Who controls the process; is it mostly local or does it reach across areas and regions? How do the answers to these questions vary by industry? How can you separate those firms that will create jobs in the future from those who will not based on their past history? These are the questions we began asking, and these are the questions for which initial answers are presented in this report.

We have organized our endeavor into three broad categories: (1) components of change, (2) job generation and (3) interregional control. This brief summary will highlight the major findings and will present summary support for these findings when possible. Detailed analysis and tables are contained in the full report.

Components of Change

The first thing we did when we had merged all the establishment records together was simply to examine the relative magnitude of the six basic ways in which employment change can take place:

1. Births
2. Deaths
3. Expansions
4. Contractions
5. In-moves
6. Out-moves

We did this by state and for a set of 315 areas in the United States that are essentially the metropolitan and rural parts of BEA areas. We also did it for several time intervals to see if we could observe any variations caused by the business cycle (see Table 1). From these detailed tables we observe:

1. Virtually no firms migrate from one area to another in the sense of hiring a moving van and relocating their operations. The oft-sighted move of textiles and shoes from New England to the South represented a rare fluke in the 1950's, not an example of a significant process today.

2. The rate of job loss due to the other two processes causing loss (deaths plus contractions) is about the same everywhere and is quite high -- 8% per year. Northern cities are not loosing jobs faster than southern ones, nor are cities loosing jobs particularly faster than suburbs. It appears to be management skill rather than location that determines job loss. This shows up quite clearly in Table 1, where states are grouped according to their rate of growth. Most of the variation in net change is due to variation in the rate of job generation (births and expansions), not to variation in the rate of loss.

3. The components of change do seem sensitive to the business cycle over time. For most states, births and expansions were fewer and deaths and contractions were more numerous during the economic downturn in the mid 1970's then during the more prosperous period preceeding the downturn.

The findings suggest that it makes little sense to attempt to influence firms to move (in the physical sense), nor is there much opportunity, short of influencing the business cycle, to influence the rate at which firms contract or go out of business. Practically all the leverage lies in affecting where new firms locate and where existing firms choose to expand. It thus becomes quite important to know what kinds of firms generate jobs.

Table 1

Annual Rate of Employment Change for States
by Growth Rate[1] of State

State Growth Rate	Births	Deaths	1969-72 Expan.	Contr.	In.	Out
Fast	7.5	5.6	6.2	2.7	.1	.03
Moderate	6.0	5.2	4.7	2.8	.2	.03
Slow	4.5	4.8	4.0	2.9	.03	.03
Decline	3.9	5.1	3.4	3.2	.2	.1
U.S. Ave.	5.6	5.2	4.7	2.9	.1	.03

	Births	Deaths	1972-74 Expan.	Contr.	In	Out
Fast	6.5	4.6	5.8	2.5	.1	.05
Moderate	5.0	4.4	5.0	2.7	.05	.05
Slow	4.3	4.6	4.5	2.9	.2	.1
Decline	-	-	-	-	-	-
U.S. Ave.	5.5	4.5	5.3	2.6	.1	.05

	Births	Deaths	1974-76 Expan.	Contr.	In	Out
Fast	9.5	5.7	5.4	3.1	.2	.05
Moderate	6.9	5.3	4.4	3.3	.1	.1
Slow	6.2	6.1	4.4	3.5	.1	.1
Decline	4.5	5.4	3.6	3.8	.2	.1
U.S. Ave.	6.7	5.7	4.4	3.4	.1	.1

1. The four classes of employment change are: Fast (over 4 percent per year), Moderate (2 to 4 percent per year), Slow (0 to 2 percent per year) and decline (less than 0 percent per year). On the average, this breakdown divides states into four roughly equal groups, although the size of the groups in any particular year is sensitive to the business cycle.

Job Generation

We have approached job generation from several different points of view, but the main focus in each instance has been to identify those firms that historically have contributed the most to replacing the 8% per year losses caused by death and contraction, so that such firms can be singled out for policy purposes.

Table 2 shows the relative contribution of different types of firms (as defined by their status) to the generation of jobs either by forming new establishments or by expanding.

1. Roughly 50% of the replacement is due to births and 50% is due to expansions.

2. About 40% of the birth-generated jobs and 60% of the expansions are produced by independent, free-standing entrepreneurs. In combination, then, about half of the total jobs generated are generated by independents, half by multi-part corporations.

3. Branching is quite important, both in absolute magnitude and in its differential effect on where growth takes place. The south attracts many more branches than the north. Thus it is differential branching, not physical migration, that causes many of the regional differences in job growth. Also, branching seems to be growing in importance over time.

4. Branching is more important in manufacturing than in other sectors of the economy.

We are still left with the question: What kind of establishments and firms are generating jobs within these broad status categories? Is it large or small firms that are taking up the slack, and in what industries?

Before answering that question, we had to take a complicated and time-comsuming step. The data we start with is recorded for each establishment -- each separate facility, be it a branch store or plant, a subsidiary, a headquarters or an independent. Yet is is firms, not establishments, that

Table 2

Status of Firms vs Employment Gains by Region, 1969-72, 1972-74, 1974-76

Births

Percent Employment Gains in firms that are:

	Time Period	Inde-pendent	Head Quarters	Subsi-diary	Branch/ HQ in State	Branch/ HQ out of State
Northeast	1969-72	39.0	6.1	5.2	20.3	29.5
	1972-74	35.6	4.1	3.9	21.4	34.9
	1974-76	23.6	2.0	1.4	31.9	41.1
North Central	1969-72	39.7	6.3	3.5	16.0	34.5
	1972-74	30.3	3.5	2.5	20.4	43.3
	1974-76	19.9	1.4	1.1	33.1	44.5
South	1969-72	37.1	5.5	4.6	12.8	39.9
	1972-74	36.2	3.9	3.0	13.9	43.1
	1974-76	25.2	1.6	1.4	21.1	50.6
West	1969-72	40.3	5.5	4.1	20.8	29.4
	1972-74	44.0	4.0	2.5	21.5	28.0
	1974-76	24.0	1.7	1.1	31.6	41.6

Expansions

Percent Employment Gains in firms that are:

	Time Period	Inde-pendent	Head Quarters	Subsi-diary	Branch/ HQ in State	Branch/ HQ out of State
Northeast	1969-72	63.1	16.5	4.2	4.4	11.7
	1972-74	56.2	20.2	5.8	5.7	12.0
	1974-76	58.2	21.1	6.7	4.2	9.8
North Central	1969-72	58.3	15.2	3.0	8.1	15.4
	1972-74	55.4	20.7	4.6	6.0	13.2
	1974-76	54.5	20.9	5.0	6.3	13.3
South	1969-72	59.2	13.3	4.8	4.2	18.5
	1972-74	56.0	15.9	5.0	3.7	19.3
	1974-76	54.2	17.4	5.7	4.6	18.1
West	1969-72	60.4	15.6	3.1	7.5	13.3
	1972-74	58.2	21.0	3.7	6.0	11.0
	1974-76	56.9	22.2	4.6	5.3	11.0

are making job expansion decisions. So, before we can identify the economic scale at which jobs are being generated, we must first bundle all the members of each corporate family into a single entity called the Firm, and then do our analyses for firms.

When we completed the bundling process, we began to ask questions about firm size. We know that the rate of loss is more or less constant for all kinds of firms within places. So we broke out each of the six components of change by size of firm and netted the losses against the gains to see which firms were net job generators. Table 3 presents the results for the United States as a whole. They are rather striking:

1. Small firms (those with 20 or fewer employees) generated 66% of all new jobs generated in the U.S.

2. Small, independent firms generated 52% of the total.

3. Middle sized and large firms, on balance, provided relatively few new jobs.

4. There was considerable regional variation in this pattern. Small business generated all net new jobs in the Northeast, an average percentage in the Midwest, and around 54 and 60 percent in the South and West respectively.

It appears that it is the smaller corporations, despite their higher failure rates, that are aggressively seeking out most new opportunities, while the larger ones are primarily redistributing their operations.

This very strong, basic finding raises questions about a life cycle phenomenon. Could it be that most firms start small, that some grow, and that once a corporation has stabilized at some level, it becomes mature and contributes very little to job generation? We began to search for such life cycle phenomena.

A first step was to return to individual establishments and determine which age categories accounted for most of the births and expansions. Table 4

Table 3

Percentage of Total Jobs[1] Generated by Size and Status for Regions and the U.S. between 1960 and 1976

Region	Ownership	0-20	21-50	51-100	101-500	500-1	Total
	Indep.	129.1%	-11.2%	-22.3%	-21.1%	24.3%	98.8%
North	HQ/Br	36.4	10.5	1.3	- 6.6	-32.8	8.8
East	Par/Sub.	11.6	7.2	3.6	- 5.5	-24.4	- 7.6
	Totals	177.1	6.5	-17.4	-33.3	-32.9	100.0
	Indep.	52.8%	4.5%	.3%	- 2.8%	2.9	57.7
North	HQ/Br	12.4	5.8	3.8	4.9	13.1	39.9
Central	Par/Sub.	2.0	1.7	1.2	1.0	- 3.5	2.4
	Totals	67.2	12.0	5.2	3.1	12.4	100.0
	Indep.	42.7%	5.7%	1.5%	0.0%	.4%	50.1%
South	HQ/Br	9.3	4.0	2.9	7.4	16.7	40.3
	Par/Sub.	1.5	1.5	1.1	2.0	3.3	9.6
	Totals	53.5	11.2	5.5	9.4	20.4	100.0
	Indep.	47.8%	5.9%	2.2%	1.9%	2.9%	60.8%
West	HQ/Br	10.0	4.3	3.0	6.2	8.6	32.0
	Par/Sub.	1.7	1.4	1.1	1.8	1.8	7.2
	Totals	59.5	11.6	6.3	9.3	13.3	100.0
	Indep.	51.8%	4.4%	0.0%	- 1.5%	3.1%	57.8%
U.S.	HQ/Br	11.9	4.9	3.1	5.6	10.6	36.1
	Par/Sub.	2.3	1.9	1.3	1.1	- .5	6.1
	Totals	66.0	11.2	4.3	5.2	13.3	100.0

1. Total jobs generated in each region are: Northeast (410,890), North Central (1,674,282), South (2,873,619), and West (1,800,112).

Table 4

Percent Distribution of New Jobs Created in Each Region Between 1974 and 1976 by Age of Establishment

Industry	Region	0-4	5-8	9-12	13+	Total
Manufacturing	Northeast	67.3%	13.9%	9.3%	9.6%	100%
	North Central	75.4	9.9	8.6	6.1	100
	South	74.1	15.1	6.2	5.9	100
	West	71.0	13.1	8.9	7.0	100
Trade	Northeast	78.2%	9.4%	6.2%	6.1%	100%
	North Central	81.5	8.5	5.4	4.7	100
	South	82.2	8.4	5.1	4.5	100
	West	81.8	8.7	5.1	4.6	100
Service	Northeast	79.4%	8.5%	7.4%	4.7%	100%
	North Central	84.7	7.0	4.6	3.8	100
	South	84.8	7.3	4.3	3.6	100
	West	87.3	5.9	3.4	3.4	100
Total	Northeast	75.5	10.4	7.5	6.6	100%
	North Central	80.8	8.4	6.0	4.8	100
	South	80.4	9.9	5.1	4.6	100
	West	80.9	8.8	5.5	4.8	100

summarizes the results:

1. Young firms play a crucial role, generating about 80% of all replacement jobs.

2. This pattern holds across all sectors of the economy and across all regions.

Having discovered that age as well as size made a big difference, we began to analyze along both dimensions separately in most of our work. A first step was to return to the components of change and ask: For those establishments existing in 1969, what had happened to them by 1976, and how did it happen. The results, presented for the U.S. in Table 5, are consistent with our aggregate findings, and add some new dimensions as well.

1. The odds of an establishment dying over this 7-year period are quite high (as we already know from Tables 1 and 2 for a shorter interval).

2. The odds of dying vs contracting are quite sensitive to size -- with a sharp break around 20 employees. Those establishments below 20 are more likely to die than contract. Those above 20 lay off part of their workforce before going out of business.

3. Of those who survive, small firms are four times more likely to expand than contract, and larger firms are 50 percent more likely to shrink than to grow.

The odds of an establishment dying, growing, or declining give little feeling for the magnitude of the resulting employment changes. Table 6 gives us a feeling for the distribution of employment generation by age and size. Now we can see the relative magnitude of the changes as well as their direction. As can be seen:

1. The corporate population is quite volatile. Conditional on surviving, establishments are almost as likely to experience big changes as small ones -- particularly small establishments. While there is some clustering around the mean, it is not nearly so great as we had anticipated.

Table 5

Components of Change by Age and Size for Establishments in the U.S. 1969-1976

Size	Age	EXPAND	CONTRACT	DIE	TOTAL
0-20	0-4	27.6	7.6	64.8	503406
	5-9	32.7	10.4	56.9	372897
	10+	33.4	12.5	54.1	882762
	TOTALS	31.6	10.7	57.8	1759065
21-50	0-4	25.2	24.4	50.4	20867
	5-9	29.9	32.1	38.0	18950
	10+	31.8	39.0	29.2	63415
	TOTALS	30.1	34.8	35.1	103232
51-100	0-4	23.4	29.1	47.4	5486
	5-9	26.9	35.1	37.9	5111
	10+	28.7	43.6	27.7	20819
	TOTALS	27.5	39.7	32.8	31416
101-500	0-4	21.7	31.9	46.3	3369
	5-9	24.5	37.9	37.6	2595
	10+	28.7	45.6	25.7	13191
	TOTALS	26.9	42.2	30.9	19155
500+	0-4	23.9	39.6	36.6	331
	5-9	21.0	38.7	40.3	181
	10+	35.1	46.7	18.2	1631
	TOTALS	32.2	44.9	22.9	2143
TOTAL	0-4	27.4	8.6	63.9	533459
	5-9	32.4	12.0	55.6	399734
	10+	33.1	15.4	51.5	981818
	TOTALS	31.4	12.8	55.8	1915011

Table 6

Percentage Change for Establishments by Age and Size for the U.S. 1969-76

			Percent Employment Change						
Age	Size	Death	-50 to -99	-25 to -49	-1 to -24	0 to 24	25 to 49	50 to 99	100+
0-4	0-20	62.7	2.8	2.9	1.6	10.1	2.9	4.4	12.5
	21-50	46.4	8.9	6.3	7.3	14.7	5.2	5.1	6.2
	51-100	44.3	10.7	7.2	9.3	13.8	6.0	4.1	4.6
	101-500	43.6	10.6	9.2	10.2	13.5	5.0	4.7	3.2
	501+	33.3	11.8	12.4	11.8	18.5	6.1	4.4	1.7
	TOTALS	61.7	3.2	3.1	2.0	10.4	3.0	4.4	12.1
Age	Size	Death	-50 to -99	-25 to -49	-1 to -24	0 to 24	25 to 49	50 to 99	100+
5-9	0-20	53.7	3.8	3.8	2.3	13.8	3.8	5.5	13.4
	21-50	34.4	11.1	8.2	9.6	18.3	6.0	6.1	6.2
	51-100	34.7	12.5	9.4	10.3	16.6	6.1	5.5	4.9
	101-500	34.8	13.0	9.3	12.8	16.2	6.0	4.6	3.4
	501+	37.2	14.3	10.7	10.7	14.8	8.2	1.0	3.1
	TOTALS	52.4	4.3	4.1	2.8	14.1	3.9	5.5	12.9
Age	Size	Death	-50 to -99	-25 to -49	-1 to -24	0 to 24	25 to 49	50 to 99	100+
10+	0-20	50.2	4.2	4.4	3.0	16.2	4.3	5.7	12.0
	21-50	25.5	11.1	10.2	12.7	23.1	6.9	5.7	4.7
	51-100	24.7	13.2	11.5	14.1	21.0	6.4	5.2	3.8
	101-500	23.1	13.9	11.9	15.2	21.5	6.3	5.0	3.1
	501+	15.9	13.3	10.8	16.6	27.2	7.1	5.7	3.5
	TOTALS	47.5	5.1	5.1	4.1	16.8	4.5	5.7	11.2
Age	Size	Death	-50 to -99	-25 to -49	-1 to -24	0 to 24	25 to 49	50 to 99	100+
Total	0-20	54.4	3.8	3.8	2.4	14.0	3.8	5.3	12.5
	21-50	31.2	10.7	9.0	11.1	20.6	6.4	5.6	5.3
	51-100	29.6	12.7	10.5	12.7	19.1	6.3	5.1	4.1
	101-500	28.1	13.2	11.1	14.0	19.4	6.1	4.9	3.2
	501+	20.2	13.1	11.1	15.4	24.9	7.0	5.1	3.2
	TOTALS	52.4	4.4	4.3	3.2	14.5	4.0	5.3	11.8

2. This phenomenon is not very sensitive to age. Maturity does not guarantee stability in the harsh corporate world. Each year is a new year, and the fact that an establishment has survived for 10 years seems to have little effect on what will happen to it in the 11th year other than increasing its odds of being there.

The fact that age has little effect on next year's expectations does not mean that the recent experience of the establishment should have no effect. If we wish to identify firms that promise to generate jobs in the future, one potentially interesting clue is likely to be the experience of the firm's establishments in the recent past. With three different time intervals in the files, it is possible to trace the history of each individual establishment. The first two intervals (1969-72 and 1972-74) were treated as history, and we assessed what affect this five-year history had on the ability of the establishment to survive and/or thrive in the rather difficult period 1974-76. In particular, we defined seven possible historical trajectories through 1974:

Trajectory	Types and Number of Changes	Magnitude of Change 69-74
1	2 Expansions	Big +
2	2 Expansions	Small +
3	1 Expan/1 Contract.	Big +
4	1 Expan/1 Contract.	Small Change
5	1 Expan/1 Contract.	Big -
6	2 Contractions	Small -
7	2 Contractions	Big -

where a big change is greater than 50% and a small change is less than 50% over this five year interval. Table 7 reveals the behavior of each establishment that survived the 1969-74 period during 1974-76. Some of the results

Table 7

Influence of Previous History on Immediate Future of Establishments in the U.S. 1969-1976

Size	Number and Type of Changes 1969-74	Mag. of Change 1969-74	Change: 1974-76 BIG+	NEUTRAL	BIG-	DEATH	TOTAL
0-20	2 Expansions	Big +	11.2	68.1	16.4	4.3	82396
	2 Expansions	Small +	10.2	77.7	9.3	2.8	6902
	1 Expan/1 Contract.	Big +	9.4	63.8	10.5	16.3	321777
	1 Expan/1 Contract.	Small Chg.	9.6	56.9	6.8	26.7	731939
	1 Expan/1 Contract.	Big -	17.8	55.8	3.3	23.1	38349
	2 Contractions	Small -	13.5	68.3	10.3	7.9	9820
	2 Contractions	Big -	23.1	58.8	5.9	12.2	8355
		TOTAL	10.0	59.7	8.4	21.8	1199538
Size	Number and Type of Changes 1969-74	Mag. of Change 1969-74	BIG+	NEUTRAL	BIG-	DEATH	TOTAL
21-50	2 Expansions	Big +	10.6	68.6	16.7	4.1	5722
	2 Expansions	Small +	7.6	80.1	9.5	2.8	3073
	1 Expan/1 Contract.	Big +	9.3	64.6	18.8	7.3	8664
	1 Expan/1 Contract.	Small Chg.	8.4	68.3	11.7	11.7	72515
	1 Expan/1 Contract.	Big -	18.3	56.2	8.7	16.8	8350
	2 Contractions	Small -	8.6	70.6	13.4	7.4	3187
	2 Contractions	Big -	20.0	57.2	9.8	13.0	2933
		TOTAL	9.7	67.1	12.2	11.0	104444
Size	Number and Type of Changes 1969-74	Mag. of Change 1969-74	BIG+	NEUTRAL	BIG-	DEATH	TOTAL
51-100	2 Expansions	Big +	9.3	68.6	18.0	4.0	1691
	2 Expansions	Small +	7.3	81.4	9.2	2.1	1186
	1 Expan/1 Contract.	Big +	8.1	63.5	20.0	8.5	2376
	1 Expan/1 Contract.	Small Chg.	7.9	67.8	12.7	11.5	23651
	1 Expan/1 Contract.	Big -	18.1	56.4	10.0	15.5	3095
	2 Contractions	Small -	7.8	72.0	13.0	7.2	1407
	2 Contractions	Big -	19.1	54.3	12.1	14.5	1123
		TOTAL	9.2	66.7	13.1	10.0	34529

Table 7 (con't)

Size	Number and Type of Changes 1969-74	Mag. of Change 1969-74	Change: 1974-76 BIG+	NEUTRAL	BIG-	DEATH	TOTAL
	2 Expansions	Big +	8.6	70.4	16.9	4.1	1029
	2 Expansions	Small +	6.0	79.1	11.4	3.4	1059
101-500	1 Expan/1 Contract.	Big +	6.6	68.6	17.1	7.6	1491
	1 Expan/1 Contract.	Small Chg.	6.9	68.3	12.2	12.6	19046
	1 Expan/1 Contract.	Big -	16.4	58.6	9.8	15.2	2097
	2 Contractions	Small -	6.9	72.0	15.3	5.9	1173
	2 Contractions	Big -	21.1	51.8	14.5	12.6	902
		TOTAL	8.2	67.7	12.6	11.6	26797

Size	Number and Type of Changes 1969-74	Mag. of Change 1969-74	BIG+	NEUTRAL	BIG-	DEATH	TOTAL
	2 Expansions	Big +	5.7	74.5	18.9	0.9	106
	2 Expansions	Small +	6.0	79.1	10.9	4.0	201
501+	1 Expan/1 Contract.	Big +	6.5	74.0	14.0	5.5	200
	1 Expan/1 Contract.	Small Chg.	6.1	72.5	11.0	10.4	3708
	1 Expan/1 Contract.	Big -	12.8	65.6	12.4	9.2	282
	2 Contractions	Small -	3.7	74.4	15.3	6.6	242
	2 Contractions	Big -	14.4	60.6	14.4	10.6	160
		TOTAL	6.6	72.2	11.7	9.5	4899

Size	Number and Type of Changes 1969-74	Mag. of Change 1969-74	BIG+	NEUTRAL	BIG-	DEATH	TOTAL
	2 Expansions	Big +	11.1	68.1	16.5	4.3	90944
	2 Expansions	Small +	8.9	78.8	9.5	2.8	12421
Total	1 Expan/1 Contract.	Big +	9.4	63.8	10.8	16.0	334508
	1 Expan/1 Contract.	Small Chg.	9.4	58.5	7.6	24.6	850859
	1 Expan/1 Contract.	Big -	17.8	56.1	4.9	21.2	52173
	2 Contractions	Small -	11.4	69.4	11.6	7.6	15829
	2 Contractions	Big -	21.9	57.6	8.0	12.6	13473
		TOTAL	9.9	60.6	8.9	20.5	1370207

are what we expected, some are very surprising (but consistent):

1. Two periods of expansion substantially lower the odds of death in the third period, and tend to raise the odds of a substantial gain in the third period.

2. On the other hand, a big gain in the past tends also to lead to a higher than average expectation of a big loss. Volatility cuts both ways; what has gone up has a higher than average tendency to go down in the next period.

3. The biggest gainers of all, curiously but very consistently, are establishments that declined the most during the recent past, but survived. These establishments have a higher than average expectation of dying, but, if they make it, they are the ones most likely to generate a large number of new jobs in the future. On balance, they are in fact two or three times more likely to be large job generators.

4. Firms that didn't do much of anything in the past (one up, one down, not much change) -- the so-called stable firms -- are among the most likely to die and the least likely to expand. There is not much to be said for stability.

5. There is little variation in these tendencies across regions and industries.

A pattern begins to emerge in all of this. The job generating firm tends to be small. It tends to be dynamic (or unstable, depending on your viewpoint) -- the kind of firm that banks feel very uncomfortable about. It tends to be young. In short, the firms that can and do generate the most jobs are the ones that are the most difficult to reach through conventional policy initiatives.

Interregional Control

There is a nagging question that persists throughout the debate over growth in different parts of the country: To what extend is apparent growth in one part of the country (like the South) really being controlled by firms

headquartered elsewhere (like in the North)? As corporate families were bundled together, we were careful to keep track of the location of the parent or headquarters of each branch or subsidiary. We are thus now able to address this question. As we observed earlier, branching is the main form of corporate expansion. Table 8 shows the extent of the interregional control of branches. As can be seen:

1. There is a great deal of inter-regional control. While the majority of jobs generated in branches and subsidiaries in a region tend to be under the control of headquarters and parents in the same region, this is not always the case, and in many instances, the majority is a bare majority.

2. In manufacturing, the great majority of jobs generated in the South are controlled in the Northeast and North Central parts of the country.

3. Relatively few corporations anywhere are opening or expanding facilities in the Northeast. The North Central section is slightly better off.

4. Even in the trade sector, almost two thirds of the Southern growth is controlled by northern corporations.

5. Only in the service industries does each region tend to dominate its own territory, with the interesting anomaly that, in this newest and most rapidly expanding sector of the economy, southern corporations are dominating northern and western establishments. In branches, for example, southern headquarters generated almost as many service jobs in the Northeast as northern firms did, substantially more jobs in the midwest than midwesterners did, and substantially more jobs in the West than westerners did.

We thus see a strange mix of old and the new. While northerners continue to dominate the declining manufacturing sector as it relocates (through differential investment) in the south, entrepreneurial southners are latching on to the growing service sector and are aggressively dominating the generation of jobs in this sector throughout the country. In the process, they are effectively precluding entry by northerners in the South by dominating the growing southern market.

46-633 O - 79 -- 22

Table 8

Percent Distribution of Net Employment Change due to Differential Treatment of Branches by Headquarters

Industry	Location of Headquarters	Controlling Branches in: N. East.	N. Central	South	West
Manu-facturing	N. East	53%	30%	31%	29%
	N. Central	34	59	41	39
	South	7	4	16	12
	West	6	7	13	21
		100%	100%	100%	100%
Other	N. East	65%	23%	23%	19%
	N. Central	21	57	18	23
	South	7	11	43	4
	West	7	9	16	53
		100%	100%	100%	100%
Trade	N. East	65%	18%	21%	16%
	N. Central	25	68	35	32
	South	5	8	37	7
	West	5	6	7	45
		100%	100%	100%	100%
Service	N. East	48%	14%	13%	14%
	N. Central	8	33	7	7
	South	40	50	75	47
	West	4	3	5	32
		100%	100%	100%	100%

On a more general level, there is a tremendous amount of inter-regional influence and control. Corporations do not hesitate at all to open and expand operations elsewhere in the country as it suites their needs. We cannot at all assume that each region holds its destiny in its own hands. In fact, a much safer assumption is that half (or more) of the jobs generated by multi-establishment corporations in a region are controlled outside of that region.

In Conclusion

It is no wonder that efforts to stem the tide of job decline have been so frustrating -- and largely unsuccessful. The firms that such efforts must reach are the most difficult to identify and the most difficult to work with. They are small. They tend to be independent. They are volatile. The very spirit that gives them their vitality and job generating powers is the same spirit that makes them unpromising partners for the development administrator.

The easier strategy of working with larger, "known" corporations whose behavior is better understood will not be, and has not been, very productive. Few of the net new jobs generated in our economy are generated by this group. Furthermore, the larger corporations, using their financial strength, are the first to redistribute their operations out of declining areas into growing ones. They do not hesitate to locate branches in greener pastures, placing an even greater burden on the smaller firms in struggling areas like the Northeast.

There is no clear way out of this quandry -- only general guidelines -- and most of them are of a negative, "do not" nature. Do not, for example,

expend resources attempting to stem physical migration -- in the textile industry sense -- because it is relatively insignificant and counterbalancing. Do not count on, or address major resources toward, larger corporations, whose powers of net generation are small and whose tendencies to shift location quickly are well demonstrated. Do not try to influence the rate of job loss, since it is practically the same in all states, and worry instead about how to encourage job replacement.

Advice on how to encourage job replacement is more difficult to give. We know that smaller, volatile firms are the major replacers of lost jobs, but we have no experience in identifying and assisting them in large numbers. Because they are small, we must reach many of them to have a measurable effect. Because they are volatile, we must monitor each individual firm's performance carefully if we are to gain maximum benefit from our invested dollars (on the high side) and avoid scandal (on the low side).

From this research's viewpoint it seems like a very difficult problem to solve administratively. A massive bureaucracy would be required to monitor individual small businesses on the scale required to change the direction of an area's economy. New England alone houses about 193,000 businesses with 20 or fewer employees, not to mention those in the 20 to 500 range (another 27,000). And New England represents a relatively small percent of the national total. It seems almost certain that our approach must be indirect, not direct, relying on existing networks of institutions rather than building large new ones.

It is not clear what to offer job-replacing firms. Some have argued persuasively that small businesses need, use well, and cannot easily get, capital. Beyond that, however, the answers are less clear. Most studies of location find that local corporate tax differences are a relatively unimportant

reason for choosing a location. Our own work on factor costs[1] suggests that, in many important instances, factor costs differences are small and/or are disappearing and that, even when they are large, they do not have a dominant effect. The most rapidly growing places in the United States in the 1970's tend to have higher than average factor costs.

Our own survey work, and that of others,[2] suggests that, for many businesses, the quality of life experienced by the managers of companies is very important. They want to avoid personal (as distinct from corporate) income taxes, crime, congestion, and the hassle of government regulation and want to find places which they find physically attractive with good schools and housing and recreational activities. We plan to delve much more deeply into this phenemenon in the months ahead. Suffice it to say here that strategies of economic development may have to address the quality of the physical environment of a place and the attitudes of its local government at least as much as the immediate economic problems and needs of its corporate inhabitants if it is to be successful.

The puzzle is a complicated one. We cannot afford to spend large sums on incentives that generate a relatively small number of jobs. But nor can we afford to ignore the effect that corporate decisions are having on millions of individuals and households. We must learn to shoot with a rifle rather than a shotgun if we are to be effective and noninflationary. Rifle-shooting requires a kind of knowledge that we simply have not had, and must obtain if we are going to do it at all well.

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1. See Birch, Regional Differences in Factor Costs: Labor, Land, Capital and Transportation. MIT Program on Neighborhood and Regional Change, 1978.

2. See a recent analysis of 3,000 central city businesses by Matz entitled Central City Businesses -- Plans and Problems (Joint Economic Committee, 1979).

TESTIMONY

by

Benjamin Chinitz

of

Abt Associates and the State University of New York

on

S914

"National Public Works and Economic Development Act of 1979"

Tuesday, April 24, 1979

Subcommittee on Regional and
Community Development
of
The U.S. Senate Committee on
Environment and Public Works

I am pleased and honored to be invited to comment on S914, a bill which would greatly enhance the federal effort to confront the challenge of local economic development. My entire professional career has been devoted to the issues which are dealt with in this legislation and I take pride in having been the first Deputy Assistant Secretary for Economic Development after the Public Works and Economic Development Act was signed by President Johnson in August 1965.

S914 meets many of my personal aspirations for a revitalized federal program. Overall it reflects a degree of support and commitment which has been lacking throughout most of the life of EDA. I trust the Congressional appropriations will further manifest this support and commitment in the coming years. I welcome the sharp focus in S914 on the direct support of private sector investments in eligible areas, as contrasted to the existing legislation (PWEDA) which has favored public sector investments designed to induce private sector investments. I applaud the effort in S914 to reflect in the proposed area eligibility criteria, the new realities in the patterns of regional development: the rapid growth and rising affluence of previously underdeveloped areas and the stagnation and decline of other areas which had not been envisioned as targets for support in the original legislation.

But I do have a few serious problems with S914 and I would like to expound on my concerns by addressing three rather fundamental issues which are not adequately dealt with in S914.

These are:

- What is S914 trying to accomplish?
- What national purpose is served by these accomplishments?

- How should the legislation define the division of labor between EDA and other agencies pursuing the same or related objectives?

What is S914 Trying to Accomplish?

This question can be answered unambiguously: to stimulate the demand for labor by the private sector in specific places. Everything EDA does should be directed at this goal. If EDA is successful, there are more jobs in eligible areas than there might otherwise be.

What National Purpose is Served by Such Accomplishments?

OR: Why should the federal government want to stimulate private sector employment growth in specific places? There are at least four kinds of answers to this question.

Some are new, some are old. Some are explicit, some are implicit.

1. To reduce the unemployment and raise the incomes of the poor and the otherwise disadvantaged in specific places.

2. To achieve population distribution goals, as between urban and rural areas, cities and suburbs, North and South.

3. To strengthen the fiscal base of local jurisdictions.

4. To expand the potential of the national economy for non-inflationary growth.

The easy way out politically may be to accept all four as legitimate national purposes to be served by EDA activity. Job creation in specific places may indeed serve all these goals. My view is that this would be a mistake. It would perpetuate the discomfort shared by many about the ambiguity of EDA's objectives. The important point, however, is that the answers to the gut questions, where do you operate and what do you do, depend crucially on the choice of purpose.

S914 seems to favor the first objective. To quote from Page 3: "to foster additional long-term employment opportunities for the unemployed

and underemployed, and benefit socially and economically disadvantaged individuals ....." On Page 39, this objective becomes a criterion for selecting applicants for development financing: "In deciding among applications ..... the Secretary may give primary consideration to ..... (1) the extent to which the proposed project will provide long-term private sector employment opportunities to residents of the area, particularly unemployed, long-term unemployed, low-income, and socially and economically disadvantaged residents....."

In my view, this is a mistake! We have other major federal programs with Appropriations at levels much higher than those authorized in S914 (not to speak of appropriations which are likely to be much lower), which have as their explicit and only objective the provision of jobs for the unemployed. CETA funds more jobs in one year than EDA could claim over its entire history. The President, in the message accompanying S914 takes pride in the new tax credit which is available to private employers to hire the economically disadvantaged. The credit is a substantial one: 50 percent of wages up to $3,000. He also cites the new provisions in CETA which authorize the use of CETA funds for private sector placements.

More fundamentally, the notion that we ought to target development financing to specific workers in eligible areas is fraught with a whole set of problems and contradictions. If the goal is to put specific kinds of workers in private sector jobs then we ought to favor areas which have absolutely large numbers of such workers and not define eligibility in terms of rates of unemployment or per capita income or percent poor.

The task of encouraging private sector employers to remain, locate,

or expand in a distressed area is challenge enough without adding to our burdens the targeting of these jobs to specific workers. We have an unfortunate tendency in public policy to try to kill more than one bird with one stone.

But you may well ask, if the jobs do not go to the unemployed, why should we subsidize the venture? What national purposes are served by creating jobs which are not filled by the unemployed?

That question reflects a fundamental misconception about the nature of unemployment in distressed areas or for that matter in the nation at large. The percent of the labor force which experiences unemployment in a given year is approximately three times the rate of unemployment. You don't have to target new jobs to the workers who happen to be unemployed at a given time to reduce the rate of unemployment. You just have to reduce the odds that any worker chosen at random will experience unemployment. And that you do by stimulating the demand for labor in the area. And that's why it makes sense to look at the rate rather than the absolute number of employed.

The notion that EDA's purpose is to influence the pattern of settlement is consistent with the notion that EDA's mission is to create more jobs in specific areas. But I, for one, am pleased that S914, as compared to PWEDA, is virtually purged of any pretenses of that sort. I am always annoyed by critics of EDA who conceive of EDA as an alternative to migration. True, when a plant is shut down and public policy intervenes to create an alternative demand for labor in the area, some of the workers who might otherwise migrate out will stay. But for the most part job creation in labor surplus areas should be viewed as

complementary rather than competitive with migration as an adjustment strategy. The goal should be not to reverse decline but to achieve full employment in the new equilibrium.

The population distribution goal has always been troublesome because there is no consensus on what the map should look like. Some try to finesse the issue by casting the goal in dynamic terms: less decline where there is decline and less growth where there is growth. They argue that it is in the national interest to have more of the growth in central cities and rural areas and less on the fringes of metropolitan areas. To accomplish that goal we should use strong inducements to direct the flow of private investment to declining cities and rural areas. There are three prongs to the argument; economy in the provision of infrastructure, equity in bringing jobs to the workers so they need not migrate, and expanding the potential for noninflationary growth (our fourth purpose).

But two-thirds of this logic is faulty. Not all job growth occurs on the fringes of metropolitan areas where the marginal cost of infrastructure is high. A lot of it takes place in the inner suburban rings and in smaller urban centers where the infrastructure is already fully developed.

Furthermore--and this is the crucial point--the view of migration is old fashioned. Both growing and declining areas experience substantial gross inmigration and gross outmigration. We cannot view job creation in a declining area as an alternative to gross outmigration. California had the largest number of outmigrants (1965-70) of any state in the union!

Unfortunately, there is a small residue in S914 of this interpretation

of EDA's purposes. One of the criteria for designation is "net employment loss for the most recent five-year period...". If decline is not accompanied by the distress of poverty and unemployment there is no justification for federal intervention to create jobs except in terms of the rationale which we have just rejected. If there is distress, then the criteria of distress will be sufficient to justify designation.

Furthermore, if there is any merit to sheer decline as an independent criterion, then it ought to be cast in terms of the change in the rate of decline. Distress will in general be associated with changes in the rate of decline (or growth) rather than with the rate itself. Steady rates of growth and decline are not likely to generate adjustment problems.

The rationale for job creation as a way of strengthening the fiscal base of local jurisdictions was a minor theme throughout most of EDA's history but it moved to center stage during the New York fiscal crisis and in the formulation of Carter's urban policy. The notion is that federal inputs which will permanently strengthen the local revenue base may be more "efficient" than annual fiscal transfers. They will not substitute for federal largesse but they may complement and hold down the required level of largesse in future years.

One appealing aspect of this rationale is that it offers a quantitative basis for calculating benefits. If we can compute the net fiscal value of a job on an annual basis, we can, by applying the appropriate discount rate, calculate the maximum amount it is rational to spend to create that job. For example, if a job adds $1,000 to annual tax revenues and if we discount at the rate of 10 percent, then it would

make sense to spend up to $10,000 to create that job. The city itself could view this as a rational way to set limits on an economic development program. To the extent that the federal government is committed to support the city fiscally, it provides quantitative guidelines for a federal economic development program.

But the fiscal goal can be served only by jobs which create net revenues for the jurisdictions in which they are located. That narrows our choice of location and the choice of industry. Furthermore, in pursuing the fiscal goal with EDA programs we compete with such attractive alternatives as revenue sharing, regionalization of tax bases, and greater efficiency in government.

S914 does not stress the fiscal goal but it is included (on page 40) as a criterion for the selection of applicants for development finance: "the extent of the contribution to the economic and fiscal base of the distressed area to be made by the project...". I think it would be a mistake to give too much weight to this criterion.

Surprisingly absent from S914 is any reference to my fourth purpose for job creation in distressed local economies: to expand the potential for noninflationary growth. In the past there were a few regional economists both here and abroad who argued that measures to stimulate private investment in specific areas and regions could actually make a net contribution to national growth. The dismal record of the national economy in the 70s--high rates of unemployment combined with high rates of inflation--has augmented those ranks. Now even macroeconomists and businessmen advocate targeting, including geographic targeting, as a strategy for achieving lower rates of unemployment and more rapid

growth with less inflationary pressure. The cost of targeting may be greater than the benefits but that's another issue.

Opportunities for achieving this kind of targeting will present themselves in different forms at different times and in different places. Therefore, this perspective on EDA's mission has definite implications for program design, in terms of where, what, and how the goal is pursued.

There are two issues here: what kinds of places and what kinds of companies. Let's begin with places.

Our first pass at the map is guided by the criterion of slack, which is a necessary, though not a sufficient condition for eligibility. Conventionally we associate slack with high unemployment rates which are thought to be a direct measure of slack, low median or per capita income, which are thought to be indicators of underemployment, overall decline of population and employment,where slack is assumed to exist by assumption regardless of the values of standard indicators, and the sudden actual or prospective loss of a major employer, where the same prima facie approach is taken.

These "clues" to slack, suerimposed on the current economic map, will lead us to poor rural areas in the South and Indian reservations everywhere, all kinds of places in the Northeast and Midwest--big central cities, smaller cities inside and outside metropolitan areas, and some rural areas--and, alas, also to the West and Alaska which have registered relatively high unemployment rates despite their basic posture of affluence and growth.

How can we sharpen the focus on slack? First, we need to distinguish

between cyclical and secular slack. EDA ought not to be concerned with cyclical slack. That is unambiguously the domain of macroeconomic policy. Second, EDA ought not to use its modest resources to accelerate a secular adjustment process which seems to be proceeding at a healthy pace of its own accord. The ideal client area, therefore, is one which has secular or chronic slack with the prospect that that condition will persist for a long time.

Which candidate areas are eliminated by these considerations? The clearest example is the area with low median (per capita) income converging rapidly to the national average. There are many such places in the South. Past experience also suggests that in many areas, seemingly secular high unemployment is cyclically induced and will go away when the national economy turns up.

The criterion of gross decline is totally invalidated by these considerations. If gross decline is not associated with an expectation of long lasting unemployment or underemployment, it should not be the object of EDA's concern. Similarly, when there is the prospect that the loss of a major employer will be offset by natural growth elsewhere in the area, EDA's role should be limited to planning assistance to assure that the process is not impeded.

If there is demonstrable secular slack does it follow that EDA can successfully intervene? By no means. Need is not always accompanied by potential. But there is a deeper question: What is the definition of success? What is a job worth? Earlier we showed how the fiscal goal could provide a basis for a cost/benefit analysis. If the goal is noninflationary growth, how much should we be willing to spend to

create a job? That question has rarely, if ever, been confonted by EDA, regardless of rationale.

Presumably, the value of a job will vary with place and project because the contribution to noninflationary growth will vary with place and project. How we measure that contribution is still another complex problem. But however these difficulties are resolved, there will undoubtedly be places where the cost of reducing the slack will exceed the benefits for all possible projects and it would be nice if EDA could stay out of such places and let other agencies do their thing in line with their goals.

In summary, eligibility should be confined to areas where the indicators and the analysis point to secular slack and there is the potential to create jobs at favorable ratios of benefits to costs.

What kinds of enterprises ought to be eligible for EDA assistance? S914 prohibits the use of EDA funds to assist relocation from one area to another. It also requires evidence that the assisted firm is not in an industry which already has excess capacity, and the firm cannot obtain capital from conventional sources.

Except for the issue of excess capacity, the other constraints reflect the political obstacles to geographic targeting, but don't make much sense otherwise. The subsidy ought to be available to financially strong companies. As for relocation, EDA assistance is not likely to cause a firm to relocate but if it is in the process of choosing another location, it should be possible to tip the choice in favor of an eligible area.

Planning Assistance

Growth of employment in an area takes three forms: the expansion

of existing enterprises, the birth of new enterprises, and the relocation of enterprises from other areas. Jobs are lost in similar ways: firms contract, die, or move to other locations. If the goal is to have more total jobs rather than less, then there are six potential targets of opportunity.

An obvious first step is to assess the prospects for births, deaths, expansions, declines, and relocations and to identify the factors which will make for better or worse results in the area in question. Call it research, call it analysis, call it planning. Whatever you call it, it's an activity which absorbs resources, i.e., it costs money. States and localities all around the country spend their own money and federal money on this activity. Since EDA is representing the national interest in achieving job growth in specific places, it makes sense that EDA should support this kind of activity in eligible areas.

But does it make sense for EDA to support planning everywhere? S914 authorizes precisely that in a variety of ways. It offers planning grants to every state in the union. It entertains applications for technical assistance (TA) and research without regard to area eligibility for other forms of assistance.

The cynical view of all this is that you must offer something to everybody if you're going to offer a lot to anybody. A more substantive defense for these provisions is that not all opportunities for accomplishing EDA's objectives are to found exclusively in eligible areas, and we want to invest modest amounts in noneligible areas in pursuit of possible payoffs there.

46-633 O - 79 -- 23

My own view is that ubiquity of access to EDA's planning support is a mistake. It blurs and dilutes the focus on the agency's primary mission, which is not to manage the country's economic development but to stimulate private sector employment growth in specific places. EDA should not have an escape hatch: to blunt failures in its primary mission by claiming success in secondary missions.

The only rationale for planning grants to all states which is consistent with the goals of S914 is that states will use this support to improve the performance of the distressed areas within the state. If the law and regulations could be written to assure that the funds would be used exclusively for such purposes, fine. Experience and common sense suggest that it is impossible to implement such restrictions.

EDA and Other Agencies

A clearer definition of EDA's objectives and goals with its implications for area designation and choice of tools is helpful in delineating the division of labor between EDA and other agencies pursuing similar or related goals.

EDA operates on the demand side, i.e., to create a demand for labor on the part of private enterprise. The Department of Labor (DOL) also operates on the demand side by creating additional jobs in the public sector for currently unemployed workers. DOL also operates on the supply side by training currently unemployed and otherwise disadvantaged workers. The two agencies can work together in meeting the labor needs of an eligible enterprise in an eligible area.

The small Business Administration (SBA) provides assistance to small business everywhere without reference to economic conditions in

the local area. SBA and EDA can work together to help a small business in an eligible area.

The mission of the Department of Housing and Urban Development (HUD) is not as readily defined and recent developments have blurred the distinction between its goals and objectives and those of EDA in troubled cities. The fact remains, however, that HUD worries about all cities and EDA does not. HUD is oriented to jurisdictions and residents, EDA to local economies and their private sectors. HUD views private sector job creation in cities as remedial for the jurisdiction and its residents while EDA's goal is or should be the exploitation of opportunities for noninflationary growth. EDA is a targeting agency. HUD is not. When and where HUD's resources can be merged with those of EDA, clearly EDA should be the lead agency.

The same holds for the Department of Agriculture (DOA), which worries about all rural areas, rich and poor. DOA's objective is to achieve equity for rural areas and their residents in terms of access to capital and public services. EDA's objective is to spot opportunities in rural areas for noninflationary private sector growth. Again, where there is complementarity, EDA ought to take the lead.

The Community Services Administration (CSA) with its Office of Economic Development (OED) is community oriented. Like EDA, CSA and OED have a very definite geographic focus but as contrasted to EDA, economic development is seen as an instrument for improving the welfare of residents of their constituent communities, rather than in terms of noninflationary growth.



associated builders and contractors, inc.

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STATEMENT BY

ARTHUR F. SOLOMON PE

FOR

THE ASSOCIATED BUILDERS AND CONTRACTORS, INC.

BEFORE

THE SUBCOMMITTEE ON REGIONAL
AND COMMUNITY DEVELOPMENT

OF THE

SENATE COMMITTEE ON
ENVIRONMENT AND PUBLIC WORKS

APRIL 24, 1979

Merit Shop Builds Best

OFFICERS: Robert A. Turner, President • Norman A. Erbe, Executive Vice President • John P. Trimmer, Assistant to the President • Ted Kennedy, 1st Vice President • Bruce Osterink, 2nd Vice President • Franz June, 3rd Vice President • Gary Furlong, Secretary • • Harry Leef, Assistant Secretary • Donald Ball, Treasurer • John Fielder, Assistant Treasurer

Mr. Chairman, Members of the Subcommittee, I am Arthur Solomon, a member of the Associated Builders and Contractors, Inc. (ABC) and President of Bradley Environmental Constructors, Inc., a firm specializing in municipal treatment facilities located in Rochester, New Hampshire. On behalf of my trade association's 13,000 member contractors, subcontractors, suppliers and associates, I thank the Subcommittee for the opportunity to testify regarding extension of the Public Works and Economic Development Program.

Our organization was established in 1950 to promote an open, free, competitive construction marketplace, where every firm has the right to work with every other firm, regardless of their respective labor policies. ABC believes that recognition of individual ability, unrestricted development of manpower, new materials, equipment and technology are the only way to assure maximum plant construction, productivity and cost efficiency. ABC believes that government contracts should be awarded to the lowest bidder, to assure the taxpayer of getting the most for his construction dollar. The foregoing is a brief description of the "Merit Shop Philosophy" as set forth by ABC - for the Construction Industry.

Our organization is an association of employers; we are well aware of this nation's employment problems and thus believe the objectives of the Public Works program are commendable. However, it should be stated that some of the regulations and methods incorporated into the Act are highly inflationary, unrealistic and incompatible with the traditions of the construction industry.

Mr. Chairman, I will direct my remarks to two aspects of the administration of the Public Works Act which we feel to be highly inflationary without producing

compensating benefits.

First, the Davis-Bacon provisions as required under Title VII of the Act, and secondly the minority set-aside guidelines adopted in 1977.

Davis-Bacon has been with us since the early 1930's, at a time of severe depression. It now has become an extraordinary subsidy for a special interest group. Davis-Bacon regulations have caused wage determinations that are not representative of local area wages in a majority of projects constructed in rural areas, and many metropolitan areas also.

There are estimates established that Davis-Bacon costs the American taxpayers as much as $2.8 billion dollars a year. We strongly urge that this subcommittee review the purposes for which the Public Works Act was established; - a primary goal to provide work for as many individuals as possible. A major step toward that goal can be achieved by eliminating the Davis-Bacon requirements from Public Works projects.

Minority Business Enterprises are another issue about which ABC is deeply concerned. ABC has always supported programs to bring minorities into the main stream of the construction industry. The Merit Shop contractors have established apprenticeship programs, task training programs and employment bureaus. In essence, we are totally committed to developing manpower.

We also believe it is impossible to legislate businesses into successful enterprises or to create management talent through set-asides. A much better approach to the problem might be through incentive programs based on tax rebates in government

subsidized housing programs which are negotiated. Utilization of MBE's in bid-work places a tremendous uncontrollable burden on the contractor both financially and through increased overhead. Our industry, particularly in the public works sector, has been one of competitive bidding both for generals and subcontractors. Now the government is recommending that negotiations be made with other than the lowest bidder with documentation being required at such negotiations. This is completely unfair to those businessmen who have come up the hard way and are denied work they have rightfully gained through the competitive bid process.

I might conclude by noting that the Japanese increased their productivity by 8% last year while U. S. business increased theirs by only 0.8% - This disparity is not due to lack of ambition on the part of our workers or lack of initiative on the part of our business managers, it occurs through the process of over-regulation, each year adding to the staggering burden of regulations which have neither proved economically viable or produce beneficial results.

In sum, the Associated Builders and Contractors support the concept of federally financed public works projects. However, we strongly believe that elimination of Davis-Bacon requirements and a more flexible approach to minority subcontracting will greatly improve the application and cost-effectiveness of public works projects.

Thank you Mr. Chairman, I will be happy to answer any questions you or members of the subcommittee may have at this time.

EXTENSION OF THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965

WEDNESDAY, APRIL 25, 1979

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT,
Washington, D.C.

The subcommittee met at 9:40 a.m., in room 4200 Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman of the subcommittee) presiding.

Present: Senators Randolph and Burdick.

OPENING STATEMENT OF HON. QUENTIN N. BURDICK, U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

Senator BURDICK. Good morning. We continue our hearings on the reauthorization of the EDA programs. Questions were raised yesterday as to the adequacy of S. 914 in respect to community economic development. Other testimony focused on the equity and venture capital needs of small- to medium-size businesses. These apparently provide most of the new jobs in the country. We learned of the backlog in the maintenance of public facilities—bridges, streets, water and sewer systems—of many of our cities, and we examined those needs against Federal responsibility. One scholar raised questions whether it is possible to accomplish the economic purpose of increasing demands for labor in distressed areas and achieve the social purpose at the same time of hiring the disadvantaged. Some witnesses called for a standby public works program in the event we have another recession.

The day's hearing left one with the feeling that the administration's bill is broadly acceptable.

Today we are privileged to hear from many of the beneficiaries of these federally sponsored economic development programs—the cities—large, medium, and small—the counties; States represented by State legislatures and State planning agencies.

I hope witnesses can point out specific weaknesses or strengths in the legislation. We want to know what precise amendments you believe would best serve the country.

Let me remind you, as we have done before and in writing, to confine your formal presentation to not more than 10 minutes. We have many witnesses today and we hope we can get through the list. In all events, your statement will be made a part of the record in toto, so try to confine your testimony to 10 minutes.

By the way, I should tell you that lawyers have to confine their arguments to the Supreme Court. I am not quite the Supreme Court. But you can say an awful lot in 10 minutes.

Our first witness is the Honorable Ann Crichton, mayor of Decatur, Ga. Welcome to the committee.

STATEMENT OF HON. ANN CRICHTON, MAYOR, DECATUR, GA.

Mayor CRICHTON. Thank you, Mr. Chairman. I have submitted a full statement for the record (see p. 400), but I will not read the entire statement for you this morning.

Senator BURDICK. I might say at this time the entire statements of all the witnesses today will be made a part of the record, without objection.

Mayor CRICHTON. Mr. Chairman, I am Ann Crichton, mayor of Decatur, Ga., and chairman of the National League of Cities' Community and Economic Development Policy Committee. I am very pleased to have this opportunity to discuss on behalf of the National League of Cities, which represents over 15,000 municipalities, both large and small, throughout the United States, the legislation to reauthorize the National Public Works and Economic Development Act of 1979.

I have with me today Reggie Todd and Carolyn Chaney of the National League of Cities' staff.

First, I want to tell you a very, very brief story. In 1977, I appeared before subcommittees in both the House and the Senate and requested multiyear funding of comprehensive programs for small cities who did not have a formula in the community development block grant program. The Congress wrote that program into the Housing and Community Development Act of 1977. That action and that support gave cities like Decatur the tools to continue our comprehensive strategy for moving toward least blighted toward most blighted, improving everything in the path—parks, streets, sidewalks, water drainage, housing—using all kinds of tools in housing. This program is really working.

Now we have reached a severely blighted neighborhood commercial area. Fifty percent of the buildings are vacant. Unemployment is extremely high. The street patterns are a severe problem to making the neighborhood commercial area work. The remaining businesses are marginal, and there is an abandoned hospital facility adjoining this district.

We have used community development funds to write a plan and implementation strategy. I have a copy here. We think that it is a strategy that could work. We helped form a local development corporation. We are cooperating with a reuse project for old homes. But it looks hopeless. But I don't think that it is hopeless. I think that there is a chance that this strategy could be implemented. I am truly excited by the President's economic redevelopment proposal and the box of tools that it would give us to implement the Oak Crest strategy within our city.

We believe this new legislation contains a flexible, broad array of tools we need to revitalize the Oak Crest business district. We need a coordinated approach, involving both business and funds to facilitate public works improvements. This legislation has both of those

within certain titles. With your help, we can do it. We know we can.

Many cities, both large and small, have needs, have the capacity and have the commitment to do this kind of job. We all need to be included in the Federal programs of this kind. I want to return in a few years and tell you the success story of the revitalization of the Oak Crest business district, where people will be working, shopping, interacting and having a better life. I think with this piece of legislation and with putting it together with the strategies we are alreadying using in housing in that same neighborhood, I can come back and tell you a success story you will be proud to be a part of. That is what I think we are talking about when we discuss this legislation this morning.

We in local government have made a strong commitment to give priority attention to economic development, and we need your support. This committee has always been responsive to the development needs of the Nation's cities, and we certainly will provide outstanding leadership again on the local economic development programs that you are considering.

Our support for the President's proposal is consistent with the national municipal policy which calls for, and I quote, "a coordinated package of focused and direct urban economic investment programs to strengthen the economic health of businesses located in distressed cities."

The administration's recent submission to the Congress of the National Public Works and Economic Development Act of 1979 is the major component of its economic development program. We would like to offer you the following comments on this important proposal to expand and extend the programs administered by the Economic Development Administration.

Under the grant programs, we strongly support the consolidation of the public works grant authorities, now contained in several titles of the PWEDA legislation, into one comprehensive economic development grant program. This consolidation will improve the ability of cities to use funds for a wide range of traditional public works activities that combat economic distress.

In addition, grants would be made available to cities to provide incentives to private firms by defraying up to 15 percent of the capital costs of a project. Localities could use such grants to subsidize the establishment or expansion of a firm in a distressed community. EDA will also be able to supplement business finance aid through special private sector oriented technical assistance for feasibility studies and other forms of entrepreneurial aid. The legislation also provides for the establishment by State and local governments of revolving loan funds for economic development assistance in the expansion of private sector investment in distressed communities.

As to eligibility, the administration has proposed a single set of economic indicators—high unemployment, low income levels, short-term unemployment and sudden and severe economic dislocation—covering a wide range of economic distress conditions. A community may qualify for aid by meeting any one criterion of distress. Pockets of poverty in otherwise ineligible cities will also be eligible for aid, as they are now in EDA's existing programs. NLC general-

ly supports this approach to eligibility, in place of the numerous eligibility factors contained in existing law.

As to funding, the administration has requested about $595 million in authorizations for its expanded economic development grant programs. NLC strongly endorses the proposed level as consistent with EDA's new role as the Federal Government's primary agency supporting local economic development. We think EDA can do the job. We support the job they are doing presently, and we think this level of funding is an appropriate level of funding.

Under the development finance programs, the bill proposes major expansion of the existing EDA program authorities to make loan guarantees, direct loans, and interest subsidies to encourage the expansion, retention or location of private investment in economically distressed areas. By creating job opportunities, the business finance program will put underutilized labor to productive use and increase local tax bases, and, therefore, not be an inflationary move, but one that would be very supportive of our economy.

Using direct loans, loan guarantees, and interest subsidies, EDA will be able to increase the available credit to small and medium-sized firms that are often unable to obtain capital at affordable rates or on acceptable terms. A wide range of capital needs could be met, including longer term, low-interest loans for fixed assets, for working capital loans and loan guarantees that are crucial to the operation and expansion of small and medium-sized firms. This idea of using this money for small and medium-sized firms is very important in distressed areas.

We believe that the coordination of these important economic development tools under the business finance programs used in conjunction with the public works grants and technical assistance authorities will provide cities with the diverse kinds of economic development mechanisms that are necessary to promote significant private investment in our distressed communities. We also strongly urge this committee to assure that cities are given an effective role at the front end of the business develop ment process. This is extremely important. Simply requiring activities financed under these new authorities to be consistent with local plans is not enough. If localities are not partners in the development of business attraction and retention activities at the outset, business firms will not receive the local governmental cooperation they will inevitably need, and the locality's priorities will be ignored. Neither result should be allowed to occur.

The same eligibility provisions apply to the business finance portion, and I have referred to those in the development grants. It is our understanding that EDA administratively targets its assistance. Clearly, every firm does not need to receive the full depth of subsidy possible under the business finance program. In tailoring its assistance, EDA should establish guidelines that are responsive not only to the needs of the firm, but most importantly, to the nature and level of distress in the area to be assisted.

As to the funding, the new development finance provisions would authorize about $2.1 billion in loan guarantees, direct loans and interest subsidies for fiscal year 1980. We support this as a reasonable first-year level of funding.

NLC has long recognized the need for consolidating and streamlining economic development planning and technical assistance activities, and we strongly support the institutional capacity building sections.

Standby public works is something else I wanted to briefly mention in closing.

In view of the fact that many private economic forecasters, as well as the Congressional Budget Office, believe that at least a mild recession is likely to occur later this year or next, NLC strongly urges the enactment of a standby anti- recessionary public works program to be triggered if the national unemployment rate reaches 6.5 percent. The administration has proposed a similar standby program in its targeted fiscal assistance bill.

In closing, let me repeat that NLC believes that EDA has demonstrated its ability to cooperate with local governments in devising and executing local development programs that encourage greater private sector investments. We enthusiastically support and endorse the proposed reauthorization, consolidation and strengthening of the National Public Works and Economic Development Act of 1979.

I thank the chairman for the opportunity to appear before you to submit these comments. I would be delighted to discuss with you anything else that you would like to ask me about this program.

Senator BURDICK. I want to commend you, because you hit the high points, and you did it in the time allowed. It is good testimony.

I just have one or two questions here. We were told yesterday in the past 10 years there has been a decline in construction of public facilities by State and local governments. They argue the unmet need for maintenance is so serious that the Federal Government has a responsibility to help. I am wondering if Federal assistance might not, in some cases, weaken the local communities to provide for themselves. What is your comment?

I was kind of taken aback yesterday, talking about the deterioration of projects and installations that had Federal help in the first place.

Mayor CRICHTON. It is a very real problem. The problem is, Mr. Chairman, that in keeping up with inflation, in keeping up with the costs of labor and trying to keep the tax rate within acceptable limits within our local communities, and being heavily dependent on property taxes, we are finding ourselves putting capital costs at the bottom of our list of priorities, and maintenance of our facilities is one of the things local communities are finding it extremely difficult to fund. We do need help in this area.

We are beginning to develop capital improvement budgets that are a little more realistic. But maintenance of our capital facilities is one of those things that we are not doing well enough, and it is simply because we do not have the funds at the local level, and we do need help with that kind of program.

I testified on the LIPW, and we talked at that time about the need for maintenance and rehabilitation of the existing public works facilities that we have within our communities. We still need that kind of help.

Senator BURDICK. What is Congress going to do if 30 of these States have told us to balance the budget and at the same time they say they don't have money to maintain them? What do we do?

Mayor CRICHTON. It is a very tough problem that we all share in the intergovernmental system.

Senator BURDICK. It looks like the cities and States particularly better take another look at this budget business, because if this is needed, it is needed.

Mayor CRICHTON. I would certainly support the fact that States need to do more in helping their local governments, and we are saying this to our Governor and to our State legislature, that not only are we turning to the Federal Government, but particularly in those States that do have surpluses—and all States do not have surpluses and all governments do not have surpluses—so those that do, at least we need to look at a reordering of priorities both at the State level and Federal level. We do have to make tough choices. We are willing to work with you in making some of those tough choices. We think this kind of program, targeting the public works, this will link with business and leverage local business capacity, will help us in strengthening our tax bases, make us less dependent on the Federal Government and have the ability to do more of these kinds of things at home.

A little bit of help in these programs leverages a lot of private money to get some of this job done. You have got to put people to work. They have to be productive citizens in order for our communities to be strengthened to do a better job at home. That is what this program is all about.

Senator BURDICK. I think the cities should know that the money isn't going to be flowing out of here quite as freely as it has in the past, that is all. They may have to absorb or take in more of this load themselves in the future, because the people are demanding a balanced budget. I have no fault with the concept. But this burden has got to be shared a little more.

Mayor CRICHTON. We get the message, and we accept the responsibility.

Senator BURDICK. You get the message?

Mayor CRICHTON. Yes, sir.

Senator BURDICK. In your statement you praise the consolidated grant programs in titles of S. 914. You single out the 15-percent grant as a useful tool to foster economic development. How does the 15-percent grant work? Do you subsidize the establishment or expansion of a firm? Is that a grant to the business directly, or how does it operate?

Mayor CRICHTON. It goes directly to local public entities, not directly to busineses. It would help defray capital costs, the public sector project portion of it. It could be a parking garage, if it were a commercial building that you were building. It could be a land assemblage within a distressed area, where the land would be so expensive that an industry would not be able to come in or a firm would not be able to come in and locate. The local government could then assemble the land if it did not exceed 15 percent of the total capital cost of that project. It would not flow directly to the business itself, but would be a subsidy that the local government would have a responsibility for doing that portion. It could be a

fixed asset, but it would be a discrete portion of that program that the local government would be responsible for doing.

Senator BURDICK. Then your main example would be assisting in site preparation location?

Mayor CRICHTON. That would probably be the best example and probably the one most often used.

Senator BURDICK. EDA makes a variety of planning grants to cities, to districts, to States and Indian tribes. Then you see city planners, and you see State planners, and there is planning under the title V's. Are we getting all jammed up with planning? How do you coordinate all these people doing the same type of thing?

Mayor CRICHTON. It is a very legitimate question, Mr. Chairman. I don't think that we ought to all be doing the same thing. I think what we are seeing, and what we ought to be seeing, is cities attempting to understand their local economies better and begin to develop strategies to deal with their local economies. What this planning ought to be is a step. Our plan ought to be fed into a district plan or an area plan, and then as the State comes in and does statewide planning, it ought to be using the data we collect, the expertise that we are gaining. So it ought to be all phased in and locked together. It ought not to be duplicated. I don't think there is enough money there to step on each others' toes and duplicate those plans. But it ought to come from the bottom up.

Senator BURDICK. I agree with you, but how do you build the cat? How do you do this?

Mayor CRICHTON. One way is that local governments insist and be tenacious, assertive enough to say we are going to do our local planning and this is what is fed into the process. The way a lot of regional bodies are established, they don't have prerogatives over us, so that this is controllable. Some are not tailored quite that way. I think EDA administratively, in administering the planning money, can also make certain that there is not a lot of duplication. I think this is probably done better by administrative ruling than perhaps by writing it into the legislation itself. But I think it can be handled. I think it is something we are learning to do. We are admitting on the local level we have not always done a good job in understanding our local economy. We do need very much technical assistance and help in doing a better job of understanding the local economy and how it fits together, and planning these kind of strategies to meet these needs. We now have a commitment to do a better job in this area, and we intend to do a better job.

Senator BURDICK. I am going to be asking this question every year, because I know in one particular case we had every planning agency I referred to working on one project in one town. They were stepping on each others' toes with that one project, and there was input from all directions. It seems to me there is a lot of wasted motion and money.

Mayor CRICHTON. Any time that you find an instance where there is a lot of wasted motion and money I hope you will wade in there and help us stop it, because we also don't want that money to be wasted, because it means that some other project or plan is unable to be done. So we would support you in doing a better job.

Senator BURDICK. You come back next year and I will ask you the same question.

Mayor CRICHTON. I will be glad to try to answer it also.

Senator BURDICK. I am not against planning. I am just against overlapping planning, because I can see when you plan too much and have too many people in it, you may not have a plan at all.

Mayor CRICHTON. You may be interested in what I told my staff. I said:

> Don't come in with another proposal for a plan. The only plan I as a mayor will be willing to consider and take to the city council is one that has an implementation strategy, that is costed out, that you can tell me which agency or which intergovernmental processes we will have to go to to help get this job done.

I said I don't want another plan. We have shelf after shelf of plans. So I totally and thoroughly agree with you. And you can call my city manager and ask him what I told him about plans and planning, and he will tell you the mandate my staff has recently received. I am with you.

Senator BURDICK. I am not going to call your city manager. I am going to talk to you.

Mayor CRICHTON. All right.

Senator BURDICK. There are those calling for a round III LPW program—and I think you touched on this in your testimony. You are in favor of a standby LPW. Do you have any amounts in mind? Do you have any figures which we can determine the budget impact?

Mayor CRICHTON. The round II $2 billion figure is what we have. Our testimony is, of course, for a standby program. Only when the unemployment rate reaches 6.5 percent would it be triggered. But the $2 billion figure, something in the nature of the last round, would be our recommendation.

Senator BURDICK. Of course, you know we haven't got this in the congressional budget.

Mayor CRICHTON. I understand that.

Senator BURDICK. Does the National League of Cities have a position on the transfer of the B. & I. program from the Farmers Home Administration to the EDA?

Mayor CRICHTON. Yes, we support the President's reorganization proposal to transfer both those programs into EDA. The board of directors has taken the position in favor of that reorganization proposal.

Senator BURDICK. Did you take the North Dakota farmers into consideration?

Mayor CRICHTON. Yes. We feel that EDA has demonstrated an ability to carry out these programs and can handle both rural and urban areas. EDA learned in the rural areas before it discovered cities. So we feel very definitely EDA could fold in the existing structure. We do understand that the Farmers Home Administration has on the local level quite a network that is in place that could be folded in. We definitely, of course, would not want to see the rural areas slighted. This would not be our objective. We just see that in putting together all of these strategies, you could save money; you could develop better coordination. We think you can, but we may be wrong.

Senator BURDICK. You put your finger on it—it is already in place. Now you are going to have another bureaucracy running along side of Farmers Home.

Mayor CRICHTON. Not necessarily. I would recommend that you not add another one running along side. When you fold in something that is in place, you don't necessarily have to parallel another bureaucracy, not if you develop your organizational chart properly.

Senator BURDICK. In my State you have Farmers Home offices in every county. The people are there; the desks are there; the typewriters are there. Now you are going to take these people out of there and put in others under EDA and set up another set of employees and administrators. You have to.

Mayor CRICHTON. I think it can be more vertical than that. But, of course, I would not be administering it. But if I were administering it, I wouldn't set up another level of bureaucracy, I would use the expertise of those people and I wouldn't just wipe it all out.

Senator BURDICK. We got along pretty well until this moment.

Mayor CRICHTON. Well, we can't agree on everything, can we?

Senator BURDICK. At least I got your views.

Up until recent moves, economic development that took place in our communities was helped by many local chambers of commerce. What are local governments doing specifically? That is part of the other question about local governments not being able to maintain the facilities. Is there some lack of drive developing? Have they gotten to lean on the Federal Government too much? What do you think about that?

Mayor CRICHTON. I don't think so. Of course, we would like very much not to lean on the Federal Government at all. We do not have the income tax and other taxes that are more responsive to inflation that the Federal Government or State governments enjoy. Legally, we are not empowered to use those taxes—at least within my State. I would like to see more money collected at the local level and used that way. That is not the system under which we operate. Intergovernmental transfer system is something, of necessity, we have become dependent on. I don't see a lack of drive. I see more a drive to solve some of these problems. I see we are working more closely with the local businesses in trying to develop strategies that will leverage more of the business.

So we are not only working, Mr. Chairman, with the Federal Government and State government, with our hands out, but we are also, I believe, doing a better job with your help and your tools of building stronger economies and helping those folks that don't have jobs and don't have decent housing, and the blight that has taken over many, many of our cities. So I don't see a lack of drive. I just think the job is a lot harder. I think we are working longer hours and harder. I don't think we have enough resources to solve all the problems.

I do think we are waking up and taking a look at setting priorities as an organization and local officials and trying to determine what has to be done to keep this from getting worse. We think this kind of legislation is the perfect tool to get in there and strengthen that local economy so that it can work and function better and more of that money will be there in the economy so we will not have to come to Congress and ask for help as we have in the past. We are hoping it will work. It is certainly our goal.

Senator BURDICK. That is our goal, too.

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One more question. I think it was yesterday or the day before yesterday, in the financial section of one of the local papers, it referred to the fact that billions have been used for manpower training programs with little to show for it. Can you speak to whether or not the manpower programs are effective in training people to permit them to get into the job market?

Mayor CRICHTON. The manpower programs do not come under my particular policy committee. But we feel we have had some success in manpower programs. It is one of those very, very tough areas where we have not done quite as much as we should or could. But it is one of those that is sometimes necessary as a last resort if we can't put people to work and get them properly trained through the existing system.

So I can't give you a very intelligent answer, because I don't know as much about that particular program, since it doesn't come under my committee.

Senator BURDICK. The thrust of the article was that we were training hundreds and hundreds of people at a very high cost for jobs that don't exist. That was the thrust of the article.

Mayor CRICHTON. Then maybe it is our responsibility, under my committee's jurisdiction, to get those jobs out there by leveraging some of the private market, and then we will be able to do a better job.

Senator BURDICK. Staff just told me there is another article on the same subject today. If you have any comments, let us know.

Mayor CRICHTON. All right, I will do that.

Senator BURDICK. Thank you very much.

Mayor CRICHTON. Thank you, Mr. Chairman, it has been a pleasure to be with you this morning.

Senator BURDICK. Our next witnesses will be Commissioner Thomas J. Barrett of Mahoning County, Youngstown, Ohio, and Mr. Franklin D. McKee, executive director of the Hartsville Project Coordinating Committee, Trousdale County, Tenn., representing the National Association of Counties.

We will first hear from Mr. Barrett and then Mr. McKee.

STATEMENT OF THOMAS J. BARRETT, COMMISSIONER, MAHONING COUNTY, OHIO, ACCOMPANIED BY JOHN MURPHY

Mr. BARRETT. Mr. Chairman and members of the subcommittee, first, I would like to introduce Mr. John Murphy of the National Association of Counties staff.

I would like to say this first, in the spirit of the meeting, I am cutting my prepared statement short. It has been submitted. (See p. 409.) When it is pertinent, I am going to try to address it to the committee.

Senator BURDICK. That is a good spirit.

Mr. BARRETT. I appreciate the opportunity to appear before you today to represent the views of the National Association of Counties. My name is Thomas J. Barrett. I am county commissioner of Mahoning County, Ohio.

You have before you S. 914, proposed by the administration, which would reauthorize and substantially modify the grant and loan programs first authorized under the Public Works and Economic Development Act of 1965.

NACo's Community Development Policy Committee met a few weeks ago to formulate the association's policy with respect both to the reorganization of the Economic Development Administration and the reauthorization of its various grant and loan programs. Attached to this statement are two resolutions stating NACo's policy—one on reorganizaton of EDA and one on reauthorization of EDA. Also attached is a resolution of NACo's Rural Affairs Committee opposing the transfer of the business and industrial loan programs from the Farmers Home Administration to EDA, which is part of NACo's policy on reorganization. I would like to spend a few moments this morning discussing these resolutions as they relate to the pending legislation.

As you know the administration has announced its intention to ask the Congress for authority to reorganize and greatly expand the economic development loan and loan guarantee programs currently contained within EDA, together with those of the Small Business Administration, the business and industrial loans of the Farmers Home Administration, and what was originally proposed as the National Development Bank. The purpose of this reorgnization is to consolidate these programs into a single economic development financing mechanism in order to avoid duplication and improve their management.

Mr. Chairman, with a single, but significant exception, NACo supports the administration's reorganization proposal and urges that Congress permit it to go forward when it is proposed as a reorganization plan later this spring.

The single exception is that NACo opposed the transfer of the business and industrial loan program of the Farmers Home Administration to EDA. Our reasoning is as follows. The subcommittee may read that if you wish.

Senator BURDICK. I think you heard my statement on that with the other witness.

Mr. BARRETT. Yes.

As you know, Mr. Chairman, the administration recently forwarded its proposed legislation, S. 914, the National Public Works and Economic Development Act of 1979. This proposal, in our view, contains many positive features, and on the whole embodies many of the principles set forth in NACo's policy resolutions. Allow me to address my remarks to a few of them.

We note that the proposed legislation calls for a 6-year authorization for both the economic development grant program under title II and the development financing loan program under title III. The funding level of $595 million for grants under title II for fiscal year 1980 roughly approximates the amount appropriated for EDA for the current fiscal year. The development financing loan and loan guarantee programs under title III provides for a greatly expanded source of assistance to encourage business investment and reinvestment in distressed areas. Both the 6-year authorization and the funding levels proposed for fiscal year 1980 are consistent with, and supportive of, NACo policy, and we urge their adoption by the Congress.

Title II of S. 914 would consolidate the public works grant programs currently administered under titles I, IV, and IX of the Public Works and Economic Development Act of 1965 into a single

streamlined and flexible grant program. This grant program would permit eligible State and local governments to use the funds for the design of public facilities, land acquisition and site preparation, construction and rehabilitation of public facilities, and special projects to provide immediate jobs for unemployed persons. To a large extent, this new flexible grant program resembles the present EDA title IX program, and NACo strongly supports it. Such flexibility in the use of grant funds is essential to permit communities to tailor economic development activities to meet varied local conditions.

Section 4 of S. 914 sets forth a revised and simplified eligibility system for the purpose of qualifying counties and other communities for EDA assistance. This revised eligibility system is intended to simplify that which is contained in the 1965 act, making it easier to understand and administer.

In addition, eligibility is extended to any subarea within an otherwise noneligible jurisdiction which meets any one of the above criteria. Such subarea is referred to as a pocket of distress.

Mr. Chairman, NACo supports a simplified eligibility system and the extension of eligibility to so called pockets of distress. We do, however, have two concerns:

(1) We understand from discussions with EDA officials that in applying the revised eligibility criteria, there would be a net eligibility reduction of 35 counties nationwide over the 2,118 counties currently eligible for the program. This means that many counties, not previously eligible for EDA assistance, would become eligible, while many others would lose eligibility. EDA has not as yet produced a list of eligible counties, which concerns us, as I am sure it does the subcommittee. Thus, although NACo supports the revised eligibility criteria, we strongly urge the Congress to maintain the eligibility of those counties and other communities currently participating in the EDA program for a period beyond the 2 years provided in the legislation. We would suggest a period of time between 3 to 5 years as being the most appropriate.

(2) We further understand from discussions with EDA that the pockets of distress provision within the legislation is silent on whether such a pocket within the unincorporated area of an otherwise noneligible county could be eligible for EDA assistance. We therefore ask the subcommittee to refine this provision to insure that the unincorporated pockets of distress are afforded the same opportunity to qualify for EDA assistance as do pockets within incorporated areas.

Mr. Chairman, NACo proposes that provisions be included within S. 914 establishing a standby countercyclical local public works construction and rehabilitation grant program, similar to that created in 1976 and extended in 1977. Such a program would be triggered by a substantial and abrupt rise in national unemployment. Many economists are predicting a sharp economic downturn by the end of this year or early next. Given the success of rounds I and II of the local public works program in reducing unemployment and constructing needed public facilities, we would strongly urge you to provide standby authority for it.

In summary, Mr. Chairman, EDA is a program that works. It is the lifeline for many of our counties and cities. Knowing of your

keep commitment to this program, we are confident that we can count on your early action to reauthorize them.

Now, Mr. Chairman, I also have a supplementary statement which has been distributed to the subcommittee. I represent an area that is very distressed in the United States. It used to be called the Ruhr Valley of America. We supplied steel for World War I and World War II and the Korean war. I am not going to read the statement, in the spirit of time. But I would like to call your attention to a few of the matters that are in the document, particularly on page 1, the statement by Mr. Bardoux of France, relative to the people of a little town in France where they closed the steel mills and the people in the town had never been 10 miles from the town. They don't leave the town. They stay in the valley when they close the steel mill. People don't know what to do. They don't just pick up and leave.

There is a letter from an unemployed steelworker. The laws of economy demand a man to take work. To apply for welfare, he has to sell his home, sell his automobile. That is a rather interesting letter.

Then we have charts on unemployment in the valley, if you would like to take a look at them later on, I would appreciate it.

I would like to say this: We have been the recipient of economic development assistance. With the help of the Federal Government, the Environmental Protection Agency, we have built a highly sophisticated sewage disposal plant. Now we have the plant, but not diversified industry in the area, near the General Motors plant. We did receive a $5 million grant from EDA, and we got some help with the effort of the Senators from Ohio; we got $7 million. But hopefully to bring the diversified industry back, so instead of everybody being on welfare, we are going to put them back to work. If we can get some help, maybe we can help ourselves, particularly in the distressed areas.

Senator BURDICK. That is why we are all here.

Mr. BARRETT. I hope I didn't take too much of your time. I tried to cut it short.

Senator BURDICK. Do you have the resolution opposing the transfer of the B. & I. program? If so, I would like it to be a part of the record.

Mr. BARRETT. They are attached to the statement.

Senator BURDICK. The Senator from West Virginia.

Senator RANDOLPH. Thank you, Mr. Chairman.

Commissioner Barrett, you were speaking of the problems of the steel industry. Those problems, at least in part, were created, not within the industry itself, but by the importation of steel.

That steel is being dumped in the United States at prices less than it cost them to produce it in Japan. But when the steel industry of Japan was to compete with the steel industry of your area and your State, they had no compunction about doing exactly what they were doing. We believe in fair trade practices, but I don't believe in unfair trade practices, and that is exactly what we have been facing in connection with steel.

I want to say this only for the record, and I don't want to go off the subject matter. But as we think of keeping these communities viable, and steel production at substantial levels, I would remind

you that Quentin Burdick and other members—there are 34 of us now—who in 1977, beginning with just a nucleus of members, no official body, formed a steel caucus. That steel caucus, I believe, was instrumental in bringing to the attention of the administration the seriousness of the problem. The President listened to us, he appointed Tony Solomon to grapple with this program and to work in ways that would be productive. So the trigger mechanism came into being.

Although it is not the answer yet, I would want to say to you that in the 2 months of 1979, January and February, as compared with the 2 months January and February of 1978, that we have cut the imports of that steel by 31 percent.

Mr. BARRETT. May I thank you.

Senator RANDOLPH. Yes. So you can make a concerted effort. And that is what the chairman is speaking about—we must all be involved.

Some time ago I went into a neighboring State, a suburb of West Virginia—Pennsylvania—to break ground for a new steel mill. A steel mill that will produce rails. The rails we are now purchasing for most of the rehabilitation of our rail system are coming from Nova Scotia. We have no modern rail facility production plant in this country.

In connection with the Wheeling-Pittsburgh Steel Co. and the beginning of this new steel plant, I was there on a morning when the snow was flying and people were cold. But their hearts were warm because they saw something being done that will keep them there at productive work. It was EDA, the funding by EDA, that made it possible, the catalyst of the very subject matter we are talking about. I don't know the exact amount that came from this agency which enabled the Swin Steel Corp., which is a tristate operation, to move forward.

I would not want the record to be finalized without indicating that your concern is certainly shared by us, and that the use of an agency like EDA has been able to bring about this development which at least partially answers the valid complaint which you and your colleagues present today.

Mr. BARRETT. I want to elaborate by saying we want to bring developers in. But without sewer or water systems or industrial parks, they don't want to even look at it. Local governments today, particularly distressed areas, they can't sell government operations, because the bankers are getting a little afraid of us.

Senator BURDICK. Senator, are you through?

Senator RANDOLPH. Yes; thank you, Mr. Chairman.

Senator BURDICK. I have one question in particular there. You ask in your statement that counties currently eligible be continued in that status that they would not otherwise qualify under the new criteria being proposed. I am sure you realize many counties now getting EDA assistance, where they have gone over the road except where Congress put a moratorium on it. But the present law provides every county is guaranteed at least 3 years of eligibility. What do you think about those who would not be eligible in S. 914 would continue to be eligible for 3 years?

Mr. BARRETT. For 3 to 5 years.

Senator BURDICK. The question is 3 years.

Mr. MURPHY. Mr. Chairman, I think the resolution that is attached to the statement talks about maximizing the participation of counties within the EDA program; it is then clarified to some extent in the statement itself by saying we are quite concerned about the counties that are currently participating in the EDA program—and I emphasize participating—stand the potential threat of losing their eligibility through the application of these revised criteria. In so doing, we are concerned about those that are in the program that have ongoing economic development projects that might be adversely affected by the 2 year grandfathering in the current legislation. We would certainly, I think, from a policy point of view, prefer to see them retain their eligibility permanently. But I believe that is not realistic. So we are suggesting a minimum of 3, and preferably a 5-year grandfathering be permitted to those counties currently participating in the program.

If I just might add, the difficulty, of course, is not being able to identify at this point in time which counties are threatened with the loss of eligibility, despite our request to EDA, going back for a number of weeks. That information is not available, and it is of deep concern to us.

Senator BURDICK. You understand our problem. The problem is basically one of distressed areas. If you have some areas not in distress, some accommodation must be made. That is why we talk about 3 years. You talk about 3 to 5. The committee will wrestle with that.

That concludes the questioning of the first half of the panel.

Mr. BARRETT. Thank you, Mr. Chairman.

Senator BURDICK. By the way, Mr. McKee, Senator Baker asked me to express his regrets at not being able to be here to formally introduce you to the subcommittee. He tells us you are doing a fine job of coping with the problems of your county in Tennessee. So you have come to us as a very highly recommended witness. We appreciate your being here this morning. I know Senator Baker would have been with us if it had been possible. I have some questions to submit to you when you get through with your statement from Senator Baker.

STATEMENT OF FRANKLIN D. McKEE, EXECUTIVE DIRECTOR, HARTSVILLE PROJECT COORDINATING COMMITTEE, TROUSDALE COUNTY, TENN., ACCOMPANIED BY MARK CROKE, NATIONAL ASSOCIATION OF COUNTIES

Mr. MCKEE. Thank you, Mr. Chairman.

I am here on behalf of the National Association of Counties. I would like to introduce Mark Croke of the NACo staff, who is on my left here.

A couple of years ago, there was some information provided to the committee concerning impact assistance. I would like to present my formal statement at this time.

Mr. Chairman, I appreciate the opportunity to address the subcommittee on the issue of energy development impact assistance. This is an issue of great, immediate concern to a number of counties and of growing concern to many others. While we are familiar with the great benefits which come to a community with economic development activity, there can also be a dark and painful side.

The administration is aware of this problem and has identified energy development impact assistance as one of the very few new programs for which funding will be requested. The National Association of Counties supports the identification of this issue as a priority.

As you are aware, EDA has been working for some time on a proposal to help alleviate the economic, social and service impacts which are frequently associated with new or increased energy resource development, the so-called boom town problem. I might emphasize here I have some knowledge and information about boom town problems from my experience in the Hartsville area.

The reason Federal action is required is that we have adopted as a national goal greatly increasing our production of coal, uranium and other natural resources. While NACo supports this move toward energy independence and secure energy supplies, it should be clear that this involves a high cost, particularly in human terms.

Rapid energy development brings with it tremendous pressures on housing, social services, schools, medical facilities, roads, and every other aspect of traditional government services. In addition, there are frequently marked increases in alcohol and drug abuse, spouse and child abuse, and crimes against property, and persons of all kinds. I can assure you there has been an increase in the area I am familiar with.

I hope that the subcommittee members had a chance to see the ABC News program 20/20 of a couple of weeks ago when this issues was discussed.

A group of people are being asked to pay an incredible price in order that the rest of the country might be able to live in comfort and energy abundance. The living conditions imposed upon these people would not long be tolerated in more populous communities. However, since most of this development is occurring in remote rural areas, it is out of sight, out of mind.

The predominantly rural communities in which these impacts occur are also the communities least equipped to deal with the problems, since they have neither the necessary infrastructure nor tax base to support this. As a result, economic growth which would be welcomed or actively sought in more populous areas becomes a burden. Even in the larger communities which are somewhat better equipped, development imposes a significant cost on the community for at least the first 6 years. In most cases income from the development may cover the communities' needs after 7 years. However, even in these cases most of the damage will have already been done.

For example, the State of Colorado has estimated that revenues from energy development may match their projected expenses after 7 years. However, the first 6 years will cost one four-county rural area between $140 and $160 million, and that estimate was prepared in 1974. With inflation, the costs have undoubtedly increased and will continue to increase.

Mr. Chairman, I am confident that, given the opportunity, we would convince even the severest of critics that the need is great. I am also convinced that the only way to deal effectively with the problem is through Federal-State-local cooperation. We must be

willing to share responsibility as well as resources if we hope to find an effective solution.

We have not had an opportunity to review the proposals as it will be or has been submitted to Congress. While we have worked closely with the EDA, and we have provided our comments on how an effective Federal-State local partnership should operate, we do not know to what extent our concerns have found their way into the final proposal.

In the report to the President on energy impact assistance, one of the alternatives identified was the use of what was termed energy impact assistance teams. This concept was later incorporated in S. 1493, and was approved last year by the Senate Committee on Environment and Public Works. An assessment team is a body composed of representatives of the Federal, State and local governments, which is responsible for developing the mitigation plan for an impacted area. I might mention here it is very necessary to plan for development prior to the beginning of some of this construction.

Even more importantly, the assessment team would be required to link funding sources with identified impacts and determine necessary resource allocations from each level of government. This arrangement is essential, since the solution to the problem will require contributions and activities from all levels of government. The absence of any party will endanger both the planning process and the intergovernmental coordination function. And I might emphasize again, these are very necessary.

Mr. Chairman, if it has not been clear to this point, I would like to reiterate. Despite the magnitude of the problem, we are not asking for a Federal bail out. In fact, the funds requested for this program in the President's budget would not allow for a bail out. What we are asking for is a partnership—a partnership to address a problem which has grown out of national policy and which is being felt in small communities and counties across the land. We are anxious to assume our role in the solution, and many States have already begun to act. We now wait only for the third partner.

Mr. Chairman, this concludes my formal remarks. I thank the subcommittee for allowing me the opportunity to appear before you, and I would be pleased to answer any questions.

Senator BURDICK. Thank you, Mr. McKee. I have a couple of questions here from Senator Baker. I will read them at this time.

I gather that you are most familiar with the impact which resulted from the Hartsville nuclear generating project in Trousdale County, Tenn. As I understand, that project was developed by the Tennessee Valley Authority. With regard to the Hartsville project, TVA is comparable to a private developer, for example. Could you tell us how much money the TVA contributed to help offset the impacts of the Hartsville project, and what other efforts TVA made to help the residents of Trousdale County?

Mr. MCKEE. Yes, sir, the local government—if I can provide just a brief background—intervened. The county council intervened into the environmental hearings, and there was a compromise reached. A total of $9 million of this $3.5 billion project was available for impact. $3 million of this is for the transportation portion of this, which is a van and bus system to reduce the number of vehicles on the road. There are seven county school systems. There

is a total of $1.5 million available for schools, which TVA projected at peak there would be 1,700 new students in the school system.

There is about $175,000 for water and sewer systems. There has been money made available for the coordination committee itself, which is composed of five county regions made up of county judges and mayors within the region. And there have been moneys made available for local planning efforts that is paid from TVA to the State of Tennessee for local planning support.

So in total, I would say $6 million is available to the local government; $3 million additionally is really used for the transportation system.

Senator BURDICK. Were TVA's efforts voluntary, or was it the result of an intervention by the local communities?

Mr. MCKEE. It was a result of intervention by the mayor of Hartsville and also the county attorney.

Senator BURDICK. Do you believe they are working, that the county, the State of Tennessee and TVA have, by and large, dealt successfully with the problem caused by the Hartsville project, and what could be done to improve TVA's response?

Mr. MCKEE. I think the effort to work together more or less came out of a conflict rather than cooperation because of the intervention. I don't exactly know the best approach to have a better working relationship. Local governments identify specific problems, such as Judge Dallas made in Macon County. Juvenile delinquency has increased. There has been an increased divorce rate. I don't know how we measure those types of impacts significantly enough to come to a grievance to assume who is responsible.

Senator BURDICK. Of course, the credit side of it is money is spent in the area.

Mr. MCKEE. Yes, sir.

Senator BURDICK. Thank you very much.

Our next witness will be Hon. Harry Meshel, State Senator from Youngstown, Ohio.

STATEMENT OF HON. HARRY MESHEL, STATE SENATOR, STATE LEGISLATURE OF OHIO

Mr. MESHEL. Thank you, Mr. Chairman. I am State Senator Harry Meshel of Ohio. I am here today representing the National Conference of State Legislatures.

We welcome this opportunity to appear before you not only to present our views on the National Public Works and Economic Development Act of 1979, but also to give some insight into some of the activities currently being conducted by States in the Nation.

I might preface my remarks on a personal note, Mr. Chairman, to tell you that Ohio is not among those States that has called for a balancing of the budget by way of a constitutional convention. I have led the fight in Ohio to oppose such a move. When the resolution was introduced in the Ohio House, during one of the hearings, I went across the aisle to testify against it, since the resolution would have been referred to my finance committee. It appears that they saw the light and have pretty much shelved the proposal in the Ohio House. I have a copy of the statement I made (see p. 441) that appeared in the Capital City Newspaper in opposition to the balanced budget convention.

Senator BURDICK. Then Ohio is not 1 of the 30?

Mr. MESHEL. No, sir, and you can be sure, sir, it will not be among those that follow, if any.

We must emphasize the importance of the National Public Works and Economic Development Act. Reauthorization of the Economic Development Administration takes on particular significance in this economic climate. It is a time when governments at all levels are being asked to cut aggregate tax burdens of citizens, reduce public spending, yet maintain provision of essential services. Looking at the phenomenal growth and expansion of the government, taxpayers might feel this easier than in reality it is. We are all going through the pains of budget cutting to meet these demands. In this climate it becomes readily apparent that constant, massive inflows of Federal dollars are no longer possible or desirable. Instead, the role of the private sector has been recognized as the most effective source of long-term economic revitalization. The public role becomes one of assistance and influencing private funds to expand or locate in areas with the most pressing need. Such a role can be active or passive. It is NCSL's view that the reauthorization proposal we are discussing today provides the means for all levels of government to take the active role in economic development and particularly revitalization of distressed areas.

EDA's tools have been used effectively by State governments in the past for many economic development activities although the resources available have been limited.

I will comment briefly today on a few of the provisions of interest to NCSL: (1) the role of States in the program; (2) inclusion of a standby public works program; (3) the development finance proposals; (4) the change in statistical eligibility requirements; and (5) planning and technical assistance.

The role States have played in the past EDA programs and the opportunity to expand State involvement via this reauthorization proposal is of primary important to NCSL. I have maintained a particular interest in economic revitalization. My home district of Youngstown is often mentioned as an area economically devastated by a major plant closing, but well on the way to recovery, albeit slow. The role the State played in this effort is only one example of the possibilities which exist. My testimony elaborates on other specific examples of State programs, so I will not repeat them here.

Senator RANDOLPH. May I interrupt you to say you will not outline the details of these programs. In your home area of Youngstown, with the turnaround, did EDA help in that to serve as a catalyst on projects, programs, and developments?

Mr. MESHEL. Yes, sir, Mr. Chairman, EDA has assisted to a degree. The State has taken an active role as well. I have and will refer to some of the activities in Ohio specifically. I have outlined activities of other States in the testimony.

But in the Mahoning Valley in the State of Ohio, we have generated as much support as we could from the EDA and from other Federal sources of funding. The State of Ohio, I think, was innovative to this extent.

As chairman of the Finance Committee in dealing with some of the budget proposals, I was able to insert some amendments in our most recent appropriations bill that did several things. One was to

create a development fund. There was only $10 million in it at one time. We added some funds to it periodically, and in that development fund there was some general revenue money.

I might add, we were able to use these funds to leverage the attraction of some industry to the State. For example, we encouraged Ford Motor Co. to build a rather substantial plant in the Cincinnati area, an approximately $200 million investment. We invested State funds, between $4 and $6 million. These funds went to the local government to help the county acquire land and put in water and sewage lines. That land was made available to Ford Motor Co.

At the same time, legislatively, we enacted a statute that gave special personal property tax reductions to industry. That was one of the important forces that attracted Ford to the State of Ohio.

In the central part of the State, we attracted the Honda Co. to build a plant north of Columbus at Marion, and essentially did some of the same things. We used some general revenue money to not only acquire land and make it available to Honda, but to create and expand the water supply from the nearby community so the plant could have water.

We additionally built a rail spur for the company to extend from our transportation research center which exists in the area, and several other such things that encouraged Honda to build a plant that would ultimately employ some 1,000 to 3,000 employees.

On another note, out of our development fund, we were able to loan, at 1 percent interest, $8 million to the Jeep plant in Toledo, a plant that was considering going to Canada. By effectuating the arrangement of the loan through our Ohio Development Finance Commission, we loaned them bonds at 1 percent, averaging their total loan investment to 7 percent. They had to go out and borrow considerable additional millions of dollars at a higher rate of interest. The State's assistance enabled them to get an average loan interest rate of 7 percent. This not only encouraged and resulted in Jeep remaining in Toledo, but also allowed them to expand and ultimately hire an additional 1,000 people in the inner city of Toledo, which is important to us.

Those are some of the things we have done. Unfortunately, in some of these areas EDA funds have not been available. UDAG grants in the city of Youngstown were available. More recently, The Aeroclip Co. shut down complete. The city of Youngstown got together with the key people interested in taking over the company—which includes some employees, by the way. With the UDAG grant and some local assistance, the company was taken over, recreated, renamed, and just reopened a week ago, with the assistance of the employee group that volunteered their time while they were on unemployment to clean up and prepare the plant for opening—without pay. That was the local union of the plant. It resulted in 150 employees being put back to work in a plant that was saved in the inner city of Youngstown.

We are developing, we hope, some additional loans. Our Loan Development Finance Commission has the ability to make some direct loans. We funded, limitedly at best, on several occasions, to make outright loans out of our general revenue fund. That development finance commission then assisted in obtaining loan guaran-

tees from lending institutions around the State, and lending to industry attempting to develop.

Also, from the State level, I created a distressed cities funds in the last appropriations act, which fund was created at the instance of the sheet and tube shutdown. We knew before too long, with layoffs of 4,000 or 5,000, the local communities in this area would suffer a loss of revenue in the income tax collections. Ohio does have both State and local income taxes. When these income taxes were becoming minimal, we knew the communities would not be able to subsist in terms of maintaining the level of service, particularly health and safety services. Although this fund I created was relatively minimal—$2½ million—it was earmarked for those distressed communities who might be forced to lay off police and fire employees, for example. We established the guidelines by which they could make application. We reviewed their local effort, whether or not they had the income tax in existence in their community, and on that basis were able to distribute some funds to communities which kept them alive.

We have since distributed $2½ million to, I think, a total of about 30 communities and have kept those communities from shutting down, literally, police departments and fire departments in some cases.

That was as much a symbolic effort as it was material, because of the small amount of money we had available to us.

On another note, and although this is not related here, we created in the State of Ohio a $40 million loan fund for public schools which might be on the verge of closing and have been unable to pass a school levy. We provided for these school districts to be certified first for closing, to be audited by the State, and approved by the State department of education before coming to the legislature to receive a loan. Then we put them pretty much under the jurisdiction of the department of education, which set up a repayment plan.

Senator RANDOLPH. Was that done during the teachers' strike in Cleveland?

Mr. MESHEL. It was prior to the teachers' strike, Senator. Cleveland has had more than its share of problems. It is a universe all its own. Both school and city problems have been enormous in the city of Cleveland. Part of it, very frankly, is the problem of the administration both of the city and the schools as well. I don't like to be critical of any communities in my own State. But I have been one of their chief critics, and I don't mind making the statement public here.

At anyrate, they were successful most recently in Cleveland in levying an income tax and having it approved in the city. That will help them to bail out of some of their fiscal problems.

Senator RANDOLPH. In your testimony, you speak of the efficiency and foresight of the Congress in bringing EDA into existence. Then you speak of the reauthorization of that act, which expires, as you know, the last of September of this year. You indicate that in the administering bill that is introduced from the committee, legislation being considered by us, it would ask you and others who are part of this program to accept less efficiency, to use your words, "but also the exclusion of a program which would add no

additional funding to the proposed budget, and would allow quick response should a recession become a reality. It simply does not make sense for such a program to be excluded." Would you comment further on exactly what you are saying?

Mr. MESHEL. Yes, Senator. I indicate in my remarks that we have severe dislocation of programs that should be able to identify areas quickly and involve a minimum of delay in certifying the area for assistance. These programs should also be responsive to the empirical evidence that such areas recover more slowly than the national economy from such downturns, by continuing such assistance for a sufficient period of time. Dislocation programs should respond not only to trends in the national economy, but to direct Federal or private sector actions which trigger such dislocations even in a healthy economy. These 50 actions can be just as devastating as economic woes.

To combat more widespread severe dislocation, we would call upon Congress to add an important element to the reauthorization proposal—that being a standby countercyclical public works program, and it should be an integral part of any Federal economic development effort. The local public works program enacted as part of the 1974-75 antirecessary package is the one to which you referred, and in this reauthorization we would be accepting less efficiency by not being able to quickly respond to those areas that have an immediate economic dislocation occur.

That generally is the approach that we have used in raising the issue and in substantiating our concern for being able to immediately respond to an economically severe problem that might develop.

Senator RANDOLPH. You have a very provocative statement. I have hurriedly looked through it. But I am challenged to read it carefully, as I know the chairman and others will.

You speak about the criteria. It is not a realistic one you say. Is that correct?

Mr. MESHEL. No, Senator Randolph, I don't mean to imply that the proposal is not realistic at all, because we strongly support EDA and, generally speaking, virtually all parts of the legislation. What we are seeking, I think, in this instance, is some ability to immediately respond to an economic problem that might occur within a general area.

I think also, as an extension of some remarks made by earlier testimony, while a county, for example, Mahoning County, may have an average unemployment of around 8.1 percent—and, of course, we know these unemployment figures aren't always reliable—within the County of Mahoning we have three communities—Campbell, Struthers, and Youngstown—where the unemploy ment average is a good deal closer to 15, 16, 17 percent. Those communities are the ones where the major number of employees do reside. And that is another reason why we applaud that portion of the EDA program that would allow us not to consider the entire county's unemployment rate, but rather some pockets of poverty within the counties. There is affluence in most of these counties in the suburbs, because that is where the professionals and some of the other kinds of businesses reside and exist. The income levels are relatively high.

But when you take a community that has perhaps 20,000 population, and 2,000 of them are laid off out of the total population, of course, that is a severe unemployment situation. And we would want to be able to respond to a specific instance of that sort.

Senator RANDOLPH. You count approximately three to four persons to a family, one worker.

Mr. MESHEL. Yes, except you are getting into more like seven or eight in a family. Ethnic families are generally larger than one or two children.

Senator RANDOLPH. I note you told us what New Jersey has been doing, and what Connecticut has been doing, Massachusetts and, of course, your own State of Ohio. Are you saying that there are States that have effective economic development programs, and those programs are using EDA funds? You are pleading, as I understand it, for that closer relationship, that ability to meet and settle problems with a minimum of bureaucratic redtape. Is that what you are saying?

Mr. MESHEL. Essentially, yes. We applaud your efforts to eliminate as much bureaucracy as possible. In any program, this requires the creation of administrative staff. We simply don't need those.

I agree in some instances there is too much planning. There are people planning for planners in some areas, and we simply don't need any more. Unfortunately, the allowance of some Federal funds in some programs has necessitated local governments to hire planners. Precedent to most approval has been the requirement to have some kind of plan. I worked for the city of Youngstown as administrative assistant to the mayor prior to getting into the Ohio Senate. I was urban renewal director for a while. If there is anything we become tired of, it is planners. We found more shelves filled with plans than anything else.

However, this doesn't obviate the necessity for statewise planning and a coordination of regional, State, and local planning. I think earlier, Senator Burdick, you indicated what can you do? I know you know the tool, and that is insertion of the language in the act that requires people to carry out your wish and your will in such a fashion, otherwise they shall not be eligible for funds. We would encourage any effort in that direction, to say that all States and all local governments who desire assistance under this program of government to cooperate in such a fashion, and might even outline the fashion in which they cooperate. We, even as a State, don't mind taking a lead from local government so long as the State has a share in the setting up of an overall State plan so that we might know—because there is a diffusion of effectiveness when local governments run in all directions. We would like to be a part of the arrangement wherein an entire State plan is established and we know how much Federal dollars are in fact going into these communities so we may have a better idea of how to distribute our federally received funds as well as some of the State funds we are setting aside.

I agree affluent areas does not need the help as much as the distressed areas that have a high rate of unemployment. We know that is, generally speaking, in the inner city where the aging plants exist, also where the aging population exists, where the

younger people depart, where you have a low tax base. These conditions have generally resulted in some of our school problems as well in many of the States, because local tax effort has become reduced and minimized. As a result, schools have found themselves hard pressed for funding.

Senator BURDICK. How do the State legislatures key into EDA section 302 planning grants for the Governors? What is done in Ohio, for example?

Mr. MESHEL. As I understand it, sir, the State department of development attempts to coordinate some of the activities of local government upon their request for such funds. They do some advising through the department of development, but the actual implementation of the spending of the funds I think is rather minimal. A good deal of these funds go directly to local government, as I understand, counties and cities particularly. If we were involved as a State more, if there was a requirement that States be involved more, we could have a little better control on distribution of these funds equitably, and they would be used in projects that would be most helpful.

Senator BURDICK. The State is involved in these 302 funds, because the grant is made to the States. The State is involved.

Mr. MESHEL. Yes, it is, but the amounts of dollars that are being utilized, as I understand it, generally requested by the communities where the project is being implemented.

Senator BURDICK. As I understand, there is a maximum amount of $200,000 that would go to the State, when requested at least. This is to develop a planning capacity at the State level.

Mr. MESHEL. Maybe I didn't get the question clear. But that is the amount being used by the State for their State plan.

Senator BURDICK. Do you think the State legislatures are accepting greater responsibility for economic development? Will we reach the point where the Federal Government can turn these programs over to State and local governments?

Mr. MESHEL. Mr. Chairman, yes, I do believe that is the case, particularly in the State of Ohio and some of the other states. I am not sure that is the case in all states across the Nation.

I have earlier noted a string of some instances of such assumption of responsibility by the State of Ohio. We have initiated programs with State assistance to attract industry into the State of Ohio. We have utilized general revenue funds in fact to bring this about. We have packaged together industrial proposals that have brought in Ford Motor Co. in Cincinnati, a Honda plant in Marion north of Columbus, and retention and expansion of Jeep in Toledo, with State-initiated programs, using State funds.

We have also built, as mentioned by Commissioner Barrett, based on a Federal grant which required a local match of some $2 million, which they did not have, which we supplied from the State of Ohio, $2 million they needed in order to extend the waterlines out to 5,000 acres of industrial land in the western part of the county; and along with the Federal grant, we are able now to extend this waterline and we think eventually be able to attract considerable industry to that part of the county and absorb a good deal of the unemployment that exists in the valley.

Senator BURDICK. Thank you very much.

Mr. MESHEL. Thank you.

Senator BURDICK. Our next witness is the Honorable Robert Drakeford, mayor of Carrboro, N.C., representing the American Association of Small Cities, accompanied by Roy Dugger, executive director, American Association of Small Cities.

STATEMENT OF HON. ROBERT DRAKEFORD, MAYOR, CARRBORO, N.C., ACCOMPANIED BY ROY DUGGER, EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF SMALL CITIES

Mayor DRAKEFORD. Mr. Chairman, members of the Subcommittee on Regional and Community Development of the Senate Committee on Environment and Public Works, I am Mayor Robert Drakeford of Carrboro, N.C., and a director of the American Association of Small Cities. As the mayor of a small city and an officer of the American Association of Small Cities, I want to thank you for the opportunity to meet and reason with the members of this subcommittee about matters vital to the future economic well-being of the 20,000 small cities, towns, and villages with under 50,000 population and the countryside served by them.

I would like to introduce some of my colleages who are here. Mayor Edith Brown from George, Wash.; Mayor Terry Wilson from Victory Mills, N.Y.; Mayor Gregory Flippins from Shaw, Miss.; Dr. Roy Dugger from Bellmeade, Tex.; Mr. James Clarke from Rockville, Md.; Mr. Joaquin Rodriguez from Scotsdale, Ariz.; and Mr. Duane Smith from Altus, Okla.

Mr. Chairman, I would also like to advise that in our full testimony we have an omission. We would like to have an opportunity before the end of the day to give you a corrected version of that statement.

Senator BURDICK. Without objection, your full statement will be a part of the record (see p. 446) and you will be at liberty to amend it in any way you wish.

Mayor DRAKEFORD. Thank you Mr. Chairman.

Mr. Chairman, the American Association of Small Cities has polled its membership, and there is a consensus among the 20,000 small cities in the United States that the proposed National Public Works and Economic Development Act of 1979, S. 914, is a generally positive bill which has the potential for supplying the valuable assistance needed by the small cities of America in meeting their economic development needs and providing for truly balanced national growth, especially in the area of economic expansion.

While it is true that the administration of this act has helped provide assistance to many small cities in rural areas, most of the basic problems affecting these areas still remain, and many new ones have emerged. The major problems are providing services for increasing numbers of people and stimulating local economic development. It is vital to the economic development of small cities and the countryside served by them that the programs currently available through the Economic Development Administration be maintained and expanded in key areas. It is most important that the service delivery system of EDA be improved. This can be accomplished in a variety of ways as we will set forth in our recommendations.

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While we are convinced that the extension of the Public Works and Economic Development Act through adoption of the proposed legislation is generally in the best interest of the small cities and the Nation as a whole, we are concerned that this program may go the way of other Federal programs. We are concerned with the language of the proposed legislation in that it offers no assurance of equity within the act if adopted as it presently exists.

The new bill proposes eligibility criteria that are reportedly directed toward five principles. According to testimony entered by Assistant Secretary Hall, and in material made available through the Economic Development Administration, this criteria seems to address certain situations for which EDA has responsibility. We are concerned that the application of these criteria will be less than equitable and that large urbanized areas and metropolitan centers will be the recipient of the bulk of the public works grants and financing.

According to responsible sources at EDA, the funding distribution 2 years ago was 75-percent rural and 25-percent urban. Today it is identified at half each for rural and urban, a decrease of 33⅓ percent for the rural areas. Furthermore, the funding level of 50 percent allocated to rural populations today is only slightly higher than the 75 percent of 2 years ago, in spite of the increases in authorizations.

Senator BURDICK. I am sorry, but there is a vote on in the Senate. We will stand in recess until I get back.

[Brief recess.]

Senator BURDICK. You may proceed.

Mayor DRAKEFORD. Thank you, Mr. Chairman.

The bulk of new funds has gone to the urban centers, at the expense of small cities and the countryside.

We can visualize that if this misdirection occurs, it will be at the expense of the 20,000 small cities of less than 50,000 population and the 135 million citizens served by them.

To insure equity and a fair shake to these citizens, the American Association of Small Cities and the mayors who serve on the task force offer the following recommendations for consideration by the Subcommittee on Regional and Community Development as you continue your deliberations on the proposed National Public Works and Economic Development Act of 1979.

Our recommendations are as follows:

First: We recommend that the Economic Development Administration be provided funds as may be necessary to strengthen its administrative structure in a manner that will enable the agency to direct equitable amounts of technical and economic assistance to our small cities.

Second: We recommend that the Economic Development Administration create the position of Deputy Assistant Secretary for Small Cities. If I may as an aside, Mr. Chairman, mainly because we need to have somebody that understands our needs up here in Washington.

Third: We recommend the Economic Development Administration make every effort to place on its technical assistance staff individuals with backgrounds in the area of small city manage-

ment, since it is difficult for urban-oriented EDA personnel to relate to the needs of a primarily rural roster of small cities.

Fourth: We recommend the Economic Development Administration make every effort to standardize and simplify the review and evaluation process of grant applications submitted by small cities, which would provide consistency in the review and selection of projects to be funded.

Fifth: The Economic Development Administration should develop a funding formula which will insure equitable distribution of funds allocated to a certain region, which can prevent an imbalance in the distribution of funds.

As a personal aside, I live right next to the city of Chapel Hill. Because Chapel Hill has a higher per capita income, the other cities around are disqualified. Most of us don't have the income that Chapel Hill has, and we are disqualified from the program.

Sixth: We recommend the Economic Development Administration set aside 40 percent of such funds as may be authorized for the exclusive use of metropolitan and urban centers of 50,000 population and greater, with the balance of funds retained for use in small cities of less than 50,000 population and the countryside served by them.

Seventh: We strongly recommend that that Economic Development Administration realine its delivery system to coincide with the boundaries of our Federal congressional districts, so as to provide a system which is consistent with the common delivery system of other Federal agencies as they will also realine.

Eighth: We recommend that the Economic Development Administra tion accept the use of independent certified audits by small cities in establishing their fiscal responsibility for implementation of local economic programs.

Ninth: We recommend further the Economic Development Administration revise its application process and implement a simplified application for use by small cities and rural communities of less than 50,000 population, similar to the sample attached to this testimony.

Mr. Chairman, this concludes my testimony before you today. I thank you for the opportunity to appear here today and for the attention you have given us. I will be glad to respond to any questions you may have, or supply additional material for the record of this hearing.

Thank you.

Senator BURDICK. Thank you very much. I have a question.

EDA has been telling us it has not been giving less to rural areas. You apparently disagree. Have you done a study of this question?

Mayor DRAKEFORD. I think our staff has done some work there. I will ask Mr. Dugger to respond.

Mr. DUGGER. Thank you, Mayor.

Mr. Chairman, I believe you are accurate in saying that the EDA has not been giving fewer hard dollars; perhaps that is a true statement. But relatively, it has been giving significantly fewer dollars, not actually fewer. The increases in appropriations have been directed largely at the large cities. And on a relative basis,

with inflation being what it is, the increase in dollars to small communities hasn't kept up with inflation, sir.

Senator BURDICK. I presume that would be also correct in your basing on per capita population.

Mr. DUGGER. I believe you would find that true, too.

Senator BURDICK. Thank you, gentlemen.

Our next witness will be Ms. Ann Bartley, director of the Washington Office, State of Arkansas, representing the Council of State Planning Agencies, accompanied by Robert Wise, director of the Council of State Planning Agencies.

STATEMENT OF ANN BARTLEY, DIRECTOR, WASHINGTON OFFICE, STATE OF ARKANSAS, ACCOMPANIED BY ROBERT WISE, DIRECTOR, COUNCIL OF STATE PLANNING, AGENCIES

Ms. BARTLEY. Good morning, Mr. Chairman. I am delighted to be here. I regret that Steve Smith, who was originally scheduled to be here, and who is executive assistant to Gov. Bill Clinton of Arkansas could not be here himself.

I am testifying on behalf of the Council of State Planning Agencies. The council is affiliated with the National Governors' Association, and is composed of people who serve as their Governor's advisers on planning and policy matters. Through its Washington staff, the council performs research and provides technical assistance on issues—like economic development—that are of paramount importance to State governments everywhere.

Through Governor Hunt of North Carolina, the National Governors' Association has already made a number of detailed comments and suggestions concerning the contents of this bill. We support this testimony in its entirety.

For this reason, I would like to talk less about our intergovernmental system—less about how much money should flow from here to there, through whom, and for what—than about what we at the State level have learned about the way in which economic development occurs, and about what we in government can—and cannot do—to influence it.

In the context of the bill we are considering today, the most important of these lessons has to do with the source of new jobs in the American economy.

In the past, many of us on the State level allowed ourselves to become dangerously preoccupied with smokestack chasing—the indescriminate hunt for out-of-State firms. As an ever-increasing number of us now realize, that focus was misplaced.

Some members of this committee may be familiar with the work of David Birch at the Massachusetts Institute of Technology. Over the past decade, Birch has used Dun & Bradstreet data to analyze the behavior of nearly 6 million business establishments—branch stores or plants, subsidiaries, headquarters operations, and independent firms. Taken together, these establishments encompass more than 80 percent of all private sector employment in the United States.

By tracking the changes which took place in these establishments over an 8-year period, Birch was able to describe—as no one has before—how employment changes over time in fundamental ways in our economy.

Because an increasing number of us on the State level are grappling with the implications of Birch's work, I would like to take a brief moment to summarize them for you.

First, all parts of the country are losing jobs—through the death and contraction of business establishments—at about the rate of 8 percent per year. What makes the crucial difference between a declining area and a growing one is the rate at which these lost jobs are replaced through the birth of new establishments and the expansion of existing ones.

Thus, while it is true that substantial variations in the net growth or diminution of jobs exist in different parts of the country, it is also true that these bottom line differences stem principally from the rate at which the jobs that are lost through the death and contraction of establishments are replaced by new jobs.

And second, almost no firms migrate from one part of the country to another.

This means, quite clearly, that if those of us in government who are concerned with economic development can discover what kind of firms are generating these new jobs—and adjust out development programs accordingly—we can be much more influential over the location decisions of new firms and the expansion decisions of existing ones.

It also means, just as clearly, that the specter which has haunted development policymakers for the past 20 years, the specter of smokestacks to be won or lost, was a grave misinterpretation of what is truly important to employment growth.

As it happens, we do know where the new jobs in our economy are coming from: 66 percent of them are created by firms employing fewer than 20 people; more than half are generated by small independent firms; and relatively few new jobs are created by middle-sized or large firms, and even fewer ar gained—or lost—through the interregional migration of firms.

Mr. Chairman, these are not, I think irrelevant statistics. They describe—in a very basic way—what is happening on the most critical level of our economy. To these statistics I would add one more. I have already pointed out that the essential difference between declining and growing areas is the rate at which jobs lost through the death and contraction of business establishments are replaced.

The statistic I would add, Mr. Chairman, is that 80 percent of these replacement jobs come from firms which are less than 4 years of age. This pattern holds ture across all sectors of our economy. It holds ture ineach region of our country.

The importance of these statistics for what we in government do to spur the growth of private sector employment is far from clear. As noted in a recent report issued by the Economic Development Administration:

> The job generating firm tends to be small. It tends to be dynamic (or unstable, depending on your point of view)—the kind of firm that banks feel very uncomfortable about. It tends to be young. In short, the firms that can and do generate the most jobs are the ones that are most difficult to reach through conventional policy initiatives. . . . The very spirit that gives them their vitality and job generating power is the same spirit that makes them unpromising partners for the development administrator.

That same EDA-sponsored report goes on to point out that:

> The easier strategy of working with larger, "known" corporations . . . will not be, and has not been, very productive. Few of the new new jobs gerenrated in our economy are generated by this group.

The lessons to be drawn from this evidence about job creation are, I think, clear and incontrovertible: Development policies aimed at inducing the migration of existing firms between and among areas address but a minute fraction of employment change. Policies aimed at influencing large corporations, whose powers of new generation are almost negligible and which tend to shift their locations quite rapidly in response to changing factor costs, are similarly misplaced. It is policies aimed at increasing the rate at which new firms are formed—or the rate at which existing firms, particularly small ones, expand—that strike at the heaft of the matter.

But what sort of policies are these? Not an easy question, to be sure. But it is just as surely a question that anyone concerned with the growth of our economy— and particularly the economies of our distressed urban and rural areas—must attempt to answer.

Before putting this question to the bill we are here to discuss today, I'd like to summarize—very briefly—important evidence about two other related issues: Regional differences in the cost of the factors of production; and the performance of private capital markets, particularly over the past decade.

Factor costs can be understood in two ways: Costs to a firm, reflected in such basics to production as labor, land, capital, energy, and transportation; and costs to people, such as food, housing, energy, and transportation—the things usually summed-up as the "cost of living."

These two kinds of costs are intertwined in the on going debate over whether jobs follow people or people follow jobs.

In light of the evidence I summarized for you about the importance of young, small and independent firms in the creation of new jobs, we need to know how factor costs influence startup decisions of enterprenuers and expansion decisions of existing firms.

Unfortunately, there does not seem to be a clear relation between the two. In some parts of the country—such as the west—high factor costs go hand in hand with high employment growth. In others—such as the south—there is a strong correlation between low factor costs and the location of new and expanding firms. In any event, recent research suggests that many factor cost differentials—as they apply to firms—are both small and shrinking. And even when they are large, they seem less than crucial to an area's ability to generate new firms. In Boston, for example, there are more than 1,200 manufacturing firms under 3 years of age—more than 1,200 new firms in a sector that is commonly though to have abandoned New England, in a State that is nationally known for its high taxes, in a local economy that is thought by many to have had its last hurrah. In short, and as the example of Boston makes so clear, factor differentials—the costs of doing business—are not, in and of themselves, an insuperable obstacle to the growth of new firms.

The other issue I want to touch upon briefly is the performance of private capital markets—particularly as they affect the formation and expansion of firms and the creation of new jobs.

As pointed out in an excellent recent study by Michael Kieschinick and Belden Daniels for the Development Finance project of the National Rural Center, the failings of private capital markets have had a critical impact on young, independent enterprises; indeed, they have kept these otherwise profitable and productive firms from generating the income, profits, and jobs they surely would have had they been able to contend equally for capital with larger firms.

The financing of most new enterprises is a hit-or-miss struggle against highly-stacked odds. It is most often the owner's personal savings which provide the main source of startup equity—occasionally supplemented with limited, indirect funds from commercial banks, venture capitalists, credit unions, and finance and insurance companies.

Small firms typically have more than a third of their capital in the form of debt—normally payable in the short- or mid-term 1 to 5 years—and virtually all as commercial bank loans rather than long-term bonds. The reason for this is fairly simple: New and small enterprises face enormous barriers in acquiring funds in the long-term debt and equity markets—a difficulty that appears remarkably unjustified on the basis of differences in their collective rate of return or risk.

For example, between 1972 and 1976, and adjusting the figures to include the impact of failure rates, manufacturing firms with less than $1 million in assets produced an average after-tax return of 16 percent on equity, while firms over $1 billion in assets returned only 13 percent.

These difficulties are causing small firms to turn to larger firms for the capital they need to grow. In 1976, for example, 76 percent of corporate acquisitions were of firms with less than $1 million in assets. To grow, these firms must give up their independence. And when this happens, the absorbed firm tends to grow more slowly, to generate fewer new jobs, to create less economic activity.

Now, as I turn to the bill itself, let me summarize my key points.

First, the replacement jobs which are so critical to an area's well-being come overwhelmingly from young, independent corporations.

Second, differences in regional factor costs do not appear to exert a decisive influence over entrepreneurial startup decisions or the expansion decisions of the smaller firms.

Third, young, small and independent corporations are hampered in their growth by their inability to obtain capital in the private market. Capital is not being allocated to these firms on the basis of their collective rate of return. It is not, for these firms, a question of capital cost; the majority of these firms cannot obtain capital at any price.

Let me begin my comments on the bill itself with a remark about the greatly expanded development finance section (title III).

The tools which are contained in this title can be used in either of two ways—to compensate for weaknesses or imperfections in the operation of private capital markets, or to seek to reduce the costs of doing business in certain areas to a degree which is sufficient to induce new investment. We believe that the former is the more sensible approach to the problem of increasing investment in distressed areas.

Indeed, from this point of view, several of these tools can be viewed quite favorably.

The loan guarantees could significantly reduce market failure if they are applied to long-term lenders—such as public pension funds—and if recipients are limited to firms that cannot now obtain capital; such a guarantee program could play an important role in spurring the growth of small and young corporations.

The grant mechanism, in effect, provides free equity—and is obviously pricing equity below what an efficient market would charge. For a small corporation facing higher equity costs, the value—and impact—of such a grant would be much greater than for an established corporation with access to private equity markets.

The interest subsidies, however, cannot serve a market correcting purpose in that they reduce the rate of interest below what should be charged in an efficiently operating capital market. Because they merely compensate a lender for bearing risk, they are much less efficient than direct loans or guarantees, which actually alter the risk facing an investor.

From a cost-of-doing-business perspective, however, these same tools are unlikely to exert much influence on private investment decisions.

The loan guarantees will increase the average after-tax rate of return on equity for individual projects in most industrial sectors by less than 0.05 percent. Corporate location decisions cannot be affected by such a small increase in profitability.

The interest subsidies—even at their maximum application—exert only the same, marginal influence.

The grant mechanism covering up to 15 percent of a project's costs, while more important at its maximum application, would even then increase a projects' profitability by a mere 3 percent—a modest figure in the face of other costs for labor, transportation, et cetera. In a recent study by the Brookings Institution, Richard Nathan notes that in Western Europe, where similar capital grant programs have operated for a number of years, such grants must be equal to at least 25 percent of a project's costs before they have a significant impact on locational decisions.

In short, these tools will not in any significant way reduce the costs of doing business in distressed areas.

Mr. Chairman, this is an important point. To believe that these tools will exert a decisive influence on private investment decisions, we must also believe first, that the principal obstacle to development in distressed areas is the cost of doing business, and second, that this obstacle can be overcome by a subsidy to capital. As the evidence I have just presented to you indicates, this is not a sound idea. These tools must be carefully—and sparingly—used; they must be directed toward profitable, sound firms which are now unable to obtain capital in the marketplace, that is, small, young, and independent corporations. To the extent to which they are made available to large firms, firms which are already able to raise all the capital they need, they could easily amount to nothing more than the simple substitution of public capital for already available private capital.

Large firms simply will not make different locational decisions because of these tools. The locational issues for large firms are noncapital issues—the availability of a productive, well-trained labor force; adequate transportation; security; help cutting through bureaucratic redtape. EDA can affect the behavior of some of these firms in certain instances, but not through development financing.

How these financing programs are administered will also condition their effectiveness.

EDA is now a small, lean agency. Much of its success—and it has been considerable—is directly attributable to its distinctly nonbureaucratic style.

EDA's loan officers are now relatively few in number. There is a danger that this greatly expanded financing program will lead these officers, in their rush to get out the money, to make larger loans than is now customary. Larger loans will likely mean larger firms. And larger firms, of course, will likely mean firms whose investment decisions can't be influenced by the availability of public capital. For this reason, we at the council were pleased to note that in his recent testimony before this committee, Secretary Hall stated his intention to phase-in these financing programs as EDA develops the capacity to properly administer them.

But this in itself is no guarantee that the many technical issues raised by EDA's venture into expanded development financing will be properly addressed.

A recent GAO report analyzing the behavior of EDA loan officers noted that they tend to place more emphasis on making new loans than attending to investments already made. The expansion of EDA's loan program means that its loan officers will be called upon to make financial judgments more difficult than those typically made by private financial institutions. The latter need concern themselves only with the financial viability of projects; EDA's loan officers must also evaluate a project's job creation potential, and attempt to determine whether or not the project would occur without EDA assistance. Inevitably, these officers—many of whom lack basic financial skills and all of whom are subject to continual political pressure on an overwhelming number of applications—will be forced to adopt rules of thumb and informal geographical allocation procedures rather than performing the difficult financial analyses necessary to fulfill the public interest. Simply increasing the number of these individuals will not alleviate the problems posed by this method of distributing assistance. For this reason, we believe it is essential for EDA to obtain substantial technical support from State and local development finance institutions in analyzing proposals submitted for EDA assistance under this title.

Having talked about the financial sections of the bill, let me now turn to its technical assistance provisions. We believe that much of EDA's program of technical assistance should be directly tied to its financing programs. This kind of assistance will be particularly important if EDA is to work successfully with smaller firms. The costs which these firms now face in the mere development of financing, known as transaction costs, are themselves major, and a significant impediment to the growth of smaller firms. EDA could substantially reduce these costs and provide an important complement to its financial programs if it could insure that adequate

assistance is available to firms receiving financial support in both the prefinancing and postfinancing phase.

We also feel that EDA should concern itself with developing substantial risk assessment, deal making, and risk following capabilities on the State and local levels.

As I have already pointed out, it is in the nature of things for any Federal agency's loan officers to be more concerned with making new loans than with watching over existing ones. For this reason, we think it vitally important that this legislation be amended to encourage the development of improved financial analysis capabilities on a decentralized basis. This means more efficient and effective collaboration among public development finance agencies at all levels. This means more reliance on local postfinancing monitoring of individual projects. This means a greater reliance on local determinations regarding capital market problems affecting eligible ventures. This means amending the bill to increase the likelihood that EDA's scarce resources will be deployed only for projects of genuine merit and need.

Similarly, we believe it vitally important that the basic grant making sections of the bill be amended to provide direct assistance in capitalizing public and private nonprofit development finance institutions on a subnational basis. These institutions would target their investments to those financially sound companies that cannot obtain enough capital from private financial institutions. As I have already pointed out, young, independent firms face major obstacles in raising equity capital and long-term subordinated debt. So do community-based enterprises—an important source of new jobs that is badly understood by private lenders. So do older firms requiring short-term finance to restructure their operations following the death or retirment of their founders.

Revolving loan funds, which are explicitly eligible for this kind of assistance under the bill, can provide a degree of this support. In South Bend, Ind., for example, a revolving loan fund formed with title IX money is already focusing on the reorganization of temporarily distressed firms.

But revolving loan funds are not development finance institutions. Development finance institutions—as now exist in various parts of the country on both the State and local levels—can also make equity investments and provide venture capital.

For example, the Massachusetts Technology Development Corporation provides loans and loan guarantees for small firms developing new products; after the loans are repaid, TDC will be able to provide equity capital as well. This is an important innovation, and it was capitalized by EDA's current title IX program. Unfortunately, it would not appear to be an eligible activity under the proposed legislation. Moneys provided through the revolving funds proposed in the bill could only be made available in the form of direct loans or loan guarantees. They cannot later be used for investments in firms which—due to their age or size—are unable to raise equity in private markets. This is our reading of the legislation. If it is correct, it indicates a substantial reduction of the flexibility in title IX of the current legislation—a decrease in flexibility which could work to the detriment of our ability to spur the growth of small, young firms. For this reason, we hope that the committee will work

to insure that EDA's current flexibility is retained in the bill as it is ultimately passed.

Mr. Chairman, I've taken longer than I intended. Let me try to briefly sum up.

Not long ago, Carl Holman, the president of the National Urban Coalition, testified before your colleagues in the House on these same issues. At that time he made a point which bears repetition.

> The common wisdom today is that the economic development policies we have—as a nation—been pursuing are basically sound, that what dysfunctions exist are attributable to the low funding levels enjoyed by existing programs or to a lack of coordination between those and other programs administered on the federal, state, and local level. In fact, what we badly need are some new approaches to economic development—approaches which provide venture and equity capital to small, independent firms in distressed areas, which provide technical and other forms of capacity building assistance to individual entrepreneurs, and which foster the decentralization of the system for distributing that assistance.

Mr. Chairman, this is an admirable point of view; it is one that we support. It is against this view, and the facts about the development process which I have tried to summarize, that this bill should be measured.

Thank you.

Senator BURDICK. You made a very fine statement.

Ms. BARTLEY. Thank you.

Senator BURDICK. But you leave me a little bit frustrated. You start with a premise that it is the small business that provides the jobs in far greater quantity than do the larger companies. But then you go on to tell me that in 1976, for example, 76 percent of the corporate acquisitions were firms with less than a million dollars. It looks like we support this economic development of small companies, and then we find out overnight 76 percent of them become big companies, and big companies don't provide the jobs in proportion with the small companies. Where do we end up in a process like that? As soon as they become successful and job-producing, they are picked up.

Ms. BARTLEY. We were pointing out, Mr. Chairman, the difficulty facing small, independent firms in obtaining long-term capital. When a small firm begins to expand and grow, it needs capital. Sometimes the only way to obtain it is to allow itself to be acquired by a larger firm.

Senator BURDICK. I am aware of some companies that were observed and didn't need the capital; they just got a good deal.

Mr. WISE. That is often true. But the statistics show that there is a serious lack of available capital, and that small firms are sometimes forced into such situations.

Senator BURDICK. We are spending millions of dollars to try to get economic development going. Are we just developing small companies to be folded into big companies?

Ms. BARTLEY. We hope not. What we are trying to point out is that those small companies who do want to make it on their own and remain small and independent face major obstacles in our private capital markets; they sometimes have no other option but to allow themselves to be acquired by larger firms.

Senator BURDICK. You know that isn't the trend. The trend is more efficiency and bigger. Do you realize the farms in North Dakota were at one time 160 acres. Now they are ever a thousand.

Mr. WISE. Our key point, Senator, is that efficiency in job creation rests with the smaller enterprise. We have a national policy of attempting to insure a job for every citizen that wants one. We believe that this policy will require us to place greater emphasis on creating new jobs through small, young independent enterprises. If they happen to be bought up, they may——

Senator BURDICK. Just a moment, then the efficiency rate and duplication is weeded out, isn't it?

Mr. WISE. Not necessarily, in our view.

Senator BURDICK. Then why doesn't a large company produce as many jobs as the small company proportionately.

Mr. WISE. There are a couple reasons. One is that a lot of the large companies are investing overseas—diverting capital which could otherwise create jobs in America. The second is that to the extent that these firms are investing here, it is—increasingly—in a capital intensive way, in things that are essentially designed to acquire fewer workers in a firm. I think this is a major problem.

Senator BURDICK. Maybe so. We aren't going to cease trying to stimulate the economy with helping small business, not for the life of us, no. But it is certainly disturbing to note that 76 percent are absorbed.

Mr. WISE. Maybe the point could have been better phrased—76 percent of the firms acquired in 1976 were small firms. In other words, when an acquisition takes place, it is usually an acquisition of a small firm.

Senator BURDICK. I know what you are talking about. But we will be analyzing this year to year as we come back.

Your association of the Council of State Planning Agencies never mentioned planning. I have been asking various witnesses about the overlap in planning. What is your perspective?

Mr. WISE. I would like to respond to that point.

I think there is some overlap. It comes, in part, from overlap in the structure of State government. But it is also attributable to overlap in Federal programs that are sometimes not connected to each other. The testimony that is going to be presented by Arnold Zogry on behalf of the National Governors' Association will address this point very specifically. They have some specific recommendations that will allow these different planning efforts to be more closely coordinated. I would like to leave that point to him, because it is an important one for the Governors. They feel very strongly there needs to be a single State plan that is built in cooperation with the local governments. In the Appalachian Regional Commission area the tendency has been to do that; I believe Governor Hunt's testimony will address the issue of coordination between EDA-type planning and title V and Appalachian Regional Commission-type planning.

Senator BURDICK. And your State planners and city planners.

Mr. WISE. Right.

Senator BURDICK. I presume they have county planners.

Mr. WISE. Every level of government has planners. The Council of State Planning Agencies, my organization, has been in existence since 1966. Our members are people who advise their Governors on planning and policy matters. Planning, in our view, is simply a way to develop a program by looking at the facts. We try not to

draw up too many plans. But we must contend with a great number of Federal programs that are unconnected.

Senator BURDICK. You understand I am not against planning. I think we have to plan. I think that is an essential part. But I just don't like to see planners sitting on each others' laps in quantities.

Ms. BARTLEY. I think in Arkansas, with our new department of economic development, we have utilized the council to great advantage. We are implementing the sort of policy we have been discussing, and we are trying to insure a healthy balance between planning and action.

Mr. WISE. Another important issue is the relationship between the plan and actual decisionmaking. Because there are so many plans—and so many different Federal programs that actually require planning—and because these plans and programs are not always connected with each other, it is often difficult at the State level to work effectively. We think one good development plan in place of the number now required would be preferable to the current system.

Senator BURDICK. How do we get that?

Mr. WISE. I think the Governors will address this issue in their testimony.

Senator BURDICK. You are deferring to the Governor?

Mr. WISE. Yes; on this point.

Senator BURDICK. All right. Thank you very much.

Ms. BARTLEY. Thank you.

Senator BURDICK. I believe the next two witnesses could come together—Mr. Blaine Liner, executive director, Southern Growth Policies Board, and Mr. Arnold Zogry, assistant secretary of administration, State of North Carolina, appearing for the National Governors' Association, representing Governor Hunt of North Carolina.

You may proceed any way you wish, gentlemen.

STATEMENT OF ARNOLD ZOGRY, ASSISTANT SECRETARY OF ADMINISTRATION, STATE OF NORTH CAROLINA, APPEARING FOR THE NATIONAL GOVERNORS' ASSOCIATION, REPRESENTING GOVERNOR HUNT OF NORTH CAROLINA

Mr. ZOGRY. If I might, Mr. Chairman, I would like to go first.

My name is Arnold Zogry. I am assistant secretary of the North Carolina Department of Administration. I work in the area of central policy.

Governor Hunt regrets very much he is not able to appear today. I appreciate very much the opportunity to substitute for him.

My role in North Carolina is in the central policy management efforts for the State, which includes a statewide development policy, our own balanced growth policy, which we can get into later.

What I would like to do, Senator, for you and the committee is to summarize the Governor's testimony. His testimony is in support of both S. 914 and S. 835.

The Governor's perspective is shaped by a series of roles that he performs. He serves as chairman of the National Governors' Association's working group on EDA reauthorization. He serves as chairman of the NGA's Subcommittee on Small Cities and Rural

Development. He has previously served terms as State's Cochairman of both the Appalachian Regional Commission and the Coastal Plains Regional Commission. And he is presently chairman of the Southern Growth Policies Board.

The main argument that the Governor's testimony presents, Mr. Chairman, is the need to link S. 914 and S. 835, particularly in terms of State investment strategies, the planning and implementation of State investment strategies in support of economic development. The Governor's testimony makes several key points.

First, that we agree with the increased emphasis on balanced growth through regional development. Second, we support S. 835 as the framework for regional development. Third, we view S. 914 as establishing a priority concern for distressed areas within the regional framework, definitely not as an independent framework. Fourth, we view title II of S. 835, the Regional Growth Policy Act, as the mechanism for linking together the language, the policy, and programs. And we view the State development plan, as set forth in S. 835, as the first step toward a single State development strategy for economic development.

The single-State strategy for economic development is the basis of the National Governors' Association position, because it is really the only realistic basis for coordination between different agencies and programs—State, Federal, and local—and this minimizes the necessity to create, to develop separate plans. And to believe that, we will minimize the overlap and duplication and lack of coordination that exist today.

The Governor's testimony recommends specific language that ties the preparation and implementation of the State plan under the EDA Reauthorization Act, and carrying out of that plan under title I and II of S. 914, and it would tie those two titles to title III of S. 835. It provides that the State's can elect to use title I and title II moneys of the EDA Reauthorization Act to prepare and carry out the State development plan set up under title III of S. 835. It provides also when the State does this, the funds that come into that State under S. 914 under titles II and III—planning dollars and project dollars—should be subject to those consistency provisions established in title III of S. 835.

We feel, Mr. Chairman, that this is a big step forward in coordinating Federal policy and programs. We feel that the linkage would be provided between EDA and the regional commissions, the support of balanced national growth, all within the Department of Commerce at this point, and the single-State strategy is the critical piece for regional development.

Senator BURDICK. What do you do about the development districts?

Mr. ZOGRY. The development districts are exceptionally well covered under S. 835. There is a process mandating the use of development districts as we do now in the Appalachia Act. We very strongly support that.

I might also add, Mr. Chairman, I am a State representative to the National Association of Development Organizations Board. So I am very familiar with the districts, and very much in support of increasing their capacity.

We feel also this type of linkage would start a precedent for linking other programs in other agencies into the basic framework established by S. 835.

The second major area of the Governor's testimony, and the second linkage, is the use of State, districts, and local capacity. We need cooperation. We need cooperation between State, district, and local government, and between State, district, local government, and the Federal Government. That cooperation has to be in terms of using existing capacity as part of the delivery service for Federal programs. EDA is going to expand considerably in terms of providing loans to the private sector. It certainly is going to require more help, and certainly will require more staff. We believe that the capacity that exists at the State and district level can be used very effectively by EDA in the cooperative process and partnership process to help administer the expanded authorities under the proposed National Economic Development Act.

We also suggest language to amend title III of S. 914 to create a partnership and delivery service, a partnership that we think will be efficient to the taxpayer and cost-effective in general.

The third major part of the Governor's testimony is eligibility. This, of course, is a central concern. In S. 914, who is eligible? We strongly urge this not become a sectional issue. We believe that there are several key principles involved, one of which will parallel the principles Assistant Secretary Hall mentioned.

We feel eligibility should be responsive to the different types of distress. We feel it should be equitable in coverage of distressed areas. We feel it should be focused on distressed areas. And we feel it should be supportive of balanced national growth.

The present approach taken in S. 914, the criteria that have been laid out—which include unemployment, poverty, joblessness and per capita income—we feel meet that test. We feel it is responsive, equitable, focused, and supportive of a balanced national growth. So we feel very strongly the formula should be retained as it is, because it does meet those principles and speaks to the needs of different types of distress that exist in all sections of the Nation.

Governor Hunt's testimony concludes with a list of additional recommendations. Those are in the testimony, and I won't repeat them now.

I want to thank you for the opportunity and request that the Governor's testimony be submitted for the record, Mr. Chairman.

Senator BURDICK. Without objection, it will be so submitted. (See p. 470.)

Senator BURDICK. Thank you.

You may proceed, Mr. Liner.

STATEMENT OF BLAINE LINER, EXECUTIVE DIRECTOR, SOUTHERN GROWTH POLICIES BOARD

Mr. LINER. Thank you, Mr. Chairman. I am Blaine Liner, the executive director of the Southern Growth Policies Board. We appreciate the chance to appear before you and present our position on the National Public Works and Economic Development Act.

The main thrust of our position is that the act should provide balance with respect to eligibility criteria. We recognize that there are areas within all regions that need economic development assist-

ance; and, therefore, eligibility criteria are paramount in judging whether or not the act provides balance among urban and rural areas, among industrial and agricultural areas, and among areas that are in different phases of their economic development.

The White House Conference on Balanced Growth recognized the problems associated with economic growth, decline and under development, and called for the equitable distribution of economic opportunities among all people and places. The Southern Growth Policies Board concurs that there are many places, north and south, urban and rural, with legitimate need for economic development assistance. Some areas of economic decline, primarily in the Northeast, have suffered large losses of jobs and are continuing to experience readjustment to cyclical and structural problems. And other areas of underdevelopment, many in the south, suffer from high poverty, below average per capita income and deficits of human and physical capital. Both kinds of places should be eligible for economic development assistance.

Research done by the Board and other organizations indicates that the criterion of poverty is more highly related to the problems or economic underdevelopment than any other measure. Poverty is, for example, much more strongly correlated than unemployment with human capital deficits; low savings per capita; low assets per capita; housing units with incomplete plumbing; underdeveloped infrastructure; loss of extensive worktime because of illness and/or disability; high mortality rates; and high birth rates for young girls. Because unemployment rates are very weakly related to level of economic development and hardship, it is vital that the Congress not assume that unemployment rates can substitute for poverty as measures of economic hardship.

Inclusion of the poverty criterion extends eligibility to many of our cities with high minority populations and poverty rates. The impact within the south of the proposed criteria of S. 914 would be consistent with program aims. However, if the poverty criterion were omitted, the impact on cities with substantial poverty would be devastating, perpetuating the cycles of poverty and economic hardship which the program purports to alleviate. If poverty were not among the criteria, most of the cities listed in the appendix to my testimony would be excluded. There are 56 cities listed in the appendix. All of them have serious problems relating to housing, social and income priorities, but which would qualify for eligibility only because of excessive high poverty.

To assure balanced growth and create a basis for truly national rural and urban policies, the eligibility criteria must recognize both kinds of economic hardship, hardship stemming from slow growth and problems caused by poverty.

Thank you for letting us present this testimony.

[An attachment to Mr. Liner's statement follows:]

PARTIAL LIST OF CITIES WITH MORE THAN 16.5% OF PERSONS IN POVERTY[1]

CITY, STATE	% LOW INCOME PERSONS	% LOW INCOME FAMILIES	% LESS THAN 5 YEARS OF SCHOOL	HOUSING PROBLEMS INDEX	MINORITY POPULATION INDEX	MURDER RATE 1975	PER CAPITA INCOME 1974
ANNISTON, AL	27.8%	22.1%	9.4%	16.9	34.5		$3,696.
BIRMINGHAM, AL	22.2%	17.4%	8.7%	12.4	41.7	32.2	$4,023.
DOTHAN, AL	20.7%	16.9%	9.6%	13.8	24.9*	9.0	$4,167.
GADSDEN, AL	20.2%	16.7%	8.6%	12.4	20.6*	19.9	$3,840.
MOBILE, AL	23.2%	18.6%	7.5%	14.5	36.3	15.3	$4,195.
MONTGOMERY, AL	21.7%	17.5%	6.9%	13.5	32.3	32.6	$4,253.
TUSCALOOSA, AL	20.5%	18.9%	12.2%	12.5	25.0		$3,757.
HOT SPRINGS, AR	25.6%	18.8%	7.0%	15.4	13.1*	10.5	$3,710.
WEST MEMPHIS, AR	23.7%	19.1%	13.6%	31.8	32.5*	18.1	$3,694.
BRADENTON, FL	22.8%	17.8%	5.6%		21.9*	4.0	$4,100.
DAYTONA BEACH, FL	23.2%	17.6%	5.9%	9.3	32.5	25.0	$4,135.
MIAMI, FL	20.4%	16.4%	8.9%	25.3	68.0	26.8	$4,416.
PANAMA CITY, FL	22.2%	17.3%	8.4%	13.9	24.1*	13.1	$3,909.
PENSACOLA, FL	21.8%	17.1%	7.8%	16.9	34.9	14.0	$4,341.
ALBANY, GA	24.4%	20.2%	13.2%	23.0	38.5	23.2	$3,859.
ATHENS, GA	20.5%	15.8%	8.6%	11.7	23.1*	12.1	$3,789.
ATLANTA, GA	19.9%	15.9%	9.0%	12.4	52.5	42.4	$4,527.
AUGUSTA, GA	30.0%	24.6%	15.3%	17.4	49.9*	27.8	$3,862.
COLUMBUS, GA	19.3%	16.4%	9.1%	12.3	25.9	16.2	$4,212.
MACON, GA	22.3%	17.9%	11.0%	17.8	37.6	19.8	$4,125.
ROME, GA	18.9%	15.3%	12.4%	12.8	23.5*	27.4	$4,163.
SAVANNAH, GA	25.9%	21.6%	11.1%	16.6	45.7	29.0	$3,872.
HOPKINSVILLE, KY	21.5%	18.4%	7.4%		22.1*	7.6	$3,674.
PADUCAH, KY	21.9%	15.8%	7.5%	9.1	17.4*	16.3	$4,076.
GRETNA, LA	17.6%	14.5%	10.2%		27.6		$3,917.
HOUMA, LA	16.6%	13.8%	15.2%	21.1	16.3		$3,979.
LAFAYETTE, LA	22.1%	18.8%	15.8%	18.9	25.9	8.0	$3,760.
LAKE CHARLES, LA	21.2%	17.5%	11.2%	14.5	32.2	14.5	$3,730.
NEW ORLEANS, LA	26.3%	21.6%	9.1%	16.9	49.4	28.2	$4,029.
SHREVEPORT, LA	21.5%	16.5%	8.3%	14.6	35.1	18.3	$4,086.
HATTIESBURG, MS	26.3%	22.5%	8.0%	17.4	28.8		$3,676.
MERIDIAN, MS	28.4%	22.9%	10.6%	19.4	33.5*	25.9	$3,770.
VICKSBURG, MS	27.8%	24.2%	12.9%	26.5	44.0*	16.8	$3,795.
FAYETTEVILLE, NC	22.3%	19.7%	8.5%	16.6	37.6	27.3	$4,166.

CITY, STATE	% LOW INCOME PERSONS	% LOW INCOME FAMILIES	% LESS THAN 5 YEARS OF SCHOOL	HOUSING PROBLEMS INDEX	HOUSING PROBLEMS INDEX	MURDER RATE 1975	PER CAPITA INCOME 1974
GREENVILLE, NC	26.7%	22.0%	9.6%	13.7	24.9*	9.5	$3,879.
ROCKY MOUNT, NC	20.7%	15.9%	10.7%	14.3	33.7*	7.7	$4,174.
WILMINGTON, NC	25.3%	20.0%	8.6%	11.9	34.3*	11.1	$4,074.
WILSON, NC	20.3%	17.8%	12.4%	17.3	32.0*	24.4	$3,747.
MUSKOGEE, OK	23.1%	17.6%	6.9%	10.8	18.6*	10.7	$3,817.
CHARLESTON, SC	26.3%	21.9%	8.7%	17.3	45.9	29.6	$4,191.
COLUMBIA, SC	17.8%	18.1%	8.3%	13.8	31.7	18.8	$4,076.
FLORENCE, SC	21.6%	17.2%	12.1%	25.4	39.2*	12.8	$4,130.
SPARTANBURG, SC	21.6%	16.8%	9.1%	16.7	33.3*	19.2	$4,346.
CHATTANOOGA, TN	17.4%	19.8%	9.0%	10.6	25.9	18.5	$3,781.
JACKSON, TN	22.0%	17.5%	8.3%	18.1	32.8*	23.1	$4,018.
JOHNSON CITY, TN	16.7%	16.2%	7.9%	10.4	6.4*	5.1	$3,938.
BRYAN, TX	20.9%	16.0%	10.1%	17.3	33.5	2.7	$3,791.
CORPUS CHRISTI, TX	19.1%	15.5%	11.8%	16.1	45.7	9.8	$3,941.
GALVESTON, TX	20.6%	15.7%	10.9%	13.5	47.1	23.3	$4,252.
PORT ARTHUR, TX	19.3%	15.0%	13.0%	13.4	46.7	26.1	$3,856.
SAN ANGELO, TX	18.3%	15.2%	8.9%	12.5	24.3	9.1	$4,031.
VICTORIA, TX	20.1%	16.0%	12.5%	19.0	41.1	6.7	$3,913.
WACO, TX	20.4%	15.7%	7.1%	8.6	28.5	25.6	$3,838.
PETERSBURG, VA	18.4%	16.7%	12.5%	25.8	45.1*	22.1	$4,116.
PORTSMOUTH, VA	20.5%	15.3%	6.1%	7.6	4.7		$3,895.
HUNTINGTON, WV	18.6%	14.1%	5.6%	7.7	5.9*	8.7	$4,254.

[1] More complete list available soon.

*Insufficient data on Spanish population -- thus only "% Black" reported.

Senator BURDICK. Thank you.

Mr. Zogry, I just have one question. Have you discussed this tie-in between the regional growth and EDA bill with any of the administration people?

Mr. ZOGRY. We mentioned this to members in EDA, why we felt it was extremely important, and I believe they would be supportive of it.

Senator BURDICK. It certainly is a new idea, and this committee will give it very careful consideration. Any time we can eliminate overlap.

Mr. ZOGRY. We think it is very important for that reason.

Senator BURDICK. Gentlemen, thank you very much for your testimony.

This completes our hearings in this session on the authorizing legislation, so the meeting will be adjourned.

[Whereupon, at 12:20 p.m., the subcommittee recessed, to reconvene subject to call of the Chair.]

[Statements supplied for the record follow:]

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STATEMENT BY

THE HONORABLE ANN CRICHTON
Mayor of Decatur, Georgia

on behalf of

THE NATIONAL LEAGUE OF CITIES

on

THE NATIONAL PUBLIC WORKS AND
ECONOMIC DEVELOPMENT ACT OF 1979

before the

SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT

April 25, 1979

Mr. Chairman and Members of the Subcommittee. I am Ann Crichton, Mayor of Decatur, Georgia, and Chairman of the National League of Cities' Community and Economic Development Policy Committee. I am pleased to have this opportunity to discuss on behalf of the National League of Cities, which represents over 15,000 municipalities, the legislation to reauthorize the National Public Works and Economic Development Act of 1979 (NPWEDA).

Local government officials have at times been slow to understand economic development and the city as an economic place. We have, too frequently, left all economic development to the private sector and for years, we did no economic planning.

Faced with the problems of stagnating or declining tax bases, unemployment and its attendant problems, we are discovering that our role in economic development is essential. There is a particular urgency that these problems be addressed.

I think the NLC National Municipal Policy says it best. "Local officials must take the lead in fashioning a conscious and aggressive economic role for city government. This role must include the development of a much more precise understanding of the local economy together with policy development,

planning, and decision-making processes in which the economic dimensions of all city government actions are considered."

We in local government have made a strong commitment to give priority attention to economic development. We need your support.

In light of the current period of economic uncertainty, the statutory mission of the Economic Development Administration (EDA) to reduce unemployment in economically distressed areas, as well as to react to abrupt economic adjustment problems, makes the work of this Committee all the more crucial. This Committee has always been responsive to the development needs of the Nation's cities, and we are certain you will provide outstanding leadership again on local economic development programs.

While the mechanisms for providing economic development aid are already in place under current law, the Administration has taken steps to further strengthen and enhance EDA programs. At NLC's Congressional-City Conference in early March, our Board of Directors fully endorsed the Administration's plans to expand and strengthen EDA, both organizationally and substantively. Our support for the Presiden't proposals is consistent with our National Municipal Policy, which calls for " . . . a coordinated package of focused and direct urban economic investment programs to strengthen the economic health of businesses located in distressed cities."

The Administration's recent submission to the Congress of the National Public Works and Economic Development Act of 1979 (NPWEDA) is the major component of its economic development program. We would like to offer you the following comments on this important proposal to expand and extend the programs administered by the Economic Development Administration (EDA).

Economic Development Grant Programs

Consolidation. We strongly support the consolidation of the public works grant authorities, now contained in several titles of the PWEDA legislation, into one comprehensive economic development grant program. The elimination of several grant authorities in favor of a single flexible grant is an important step forward for EDA programs. This consolidation will improve the ability of cities to use funds for a wide range of traditional public works activities that combat economic distress.

In addition, grants would be made available to cities to provide incentives to private firms by defraying up to 15 percent of the capital costs of a project. Localities could use such grants (normally in tandem with other EDA business finance assistance) to subsidize the establishment or expansion of a firm in a distressed community. EDA will also be able to supplement business finance aid through special private sector oriented technical assistance for feasibility studies and other forms

of entrepreneurial aid. The legislation also provides for the establishment by state and local governments of revolving loan funds for economic development assistance in the expansion of private sector investment in distressed communities.

Eligibility. The Administration has proposed a single set of economic indicators -- high unemployment, low income levels, short-term unemployment, and sudden and severe economic dislocation -- covering a wide range of economic distress conditions. A community may qualify for aid by meeting any one criterion of distress. Pockets-of-distress in otherwise ineligible cities will also be eligible for aid, as they are now in EDA's existing programs. NLC generally supports this approach to eligibility, in place of the numerous eligiblity factors contained in existing law.

Although approximately 61 percent of the nation will qualify, aid will be provided only to those who prepare acceptable overall economic development programs (OEDP) that contain sound economic development strategies. This is similar to EDA's current approach, which has worked well. We must await more detailed information from EDA on the

communities that will be eligible in order to apply practical tests to the eligibility criteria.

Funding. The Administration has requested about $595 million in authorizations for its expanded economic development grant programs. NLC strongly endorses the proposed level as consistent with EDA's new role as the Federal Government's primary agency supporting local economic development.

Development Finance Programs

Loan Guarantees, Direct Loans, Interest Subsidies.

The bill proposes major expansion of the existing EDA program authorities to make loan guarantees, direct loans, and interest subsidies to encourage the expansion, retention or location of private investment in economically distressed areas. These expanded authorities under the consolidated business development financing program will help provide the incentives necessary to encourage private sector business investment, which accounts for approximately four out of every five jobs in our nation's economy and constitutes a major portion of the tax base of local areas. By creating job opportunities, the business finance program will put underutilized labor to productive use and increase local tax bases.

Using direct loans, loan guarantees, and interest subsidies, EDA will be able to increase the available credit to small and medium sized firms that are often unable to obtain

capital at affordable rates or on acceptable terms. A wide range of capital needs could be met, including longer-term, low interest loans for fixed assets (e.g., land, plant and equipment), working capital loans and loan guarantees that are crucial to the operation and expansion of small and medium sized firms.

We believe that the coordination of these important economic development tools under the business finance programs used in conjunction with the public works grants and technical assistance authorities will provide cities with the diverse kinds of economic development mechanisms that are necessary to promote significant private investment in our distressed communities. We also strongly urge this Committee to assure that cities are given an effective role at the front end of the business development process. Simply requiring activities financed under these new authorities to be consistent with local plans is not enough. If localities are not partners in the development of business attraction and retention activities at the outset, business firms will not receive the local governmental cooperation they will inevitably need, and the locality's priorities will be ignored. Neither result should be allowed to occur.

Eligibility. The same eligibility provisions would apply to these business financing provisions as referred to above in connection with the development grants. It is

our understanding that EDA administratively targets its assistance. Clearly, not every firm needs to receive the full depth of subsidy possible under the business finance program. In tailoring its assistance, EDA should establish guidelines that are responsive not only to the needs of the firm (e.g., reducing the cost of capital to a credit-worthy firm by using interest subsidies or making credit available to a riskier firm through a direct loan); but most importantly, to the nature and level of distress in the area to be assisted.

Funding. The new development finance provisions would authorize about $2.1 billion in loan guarantees, direct loans, and interest subsidies for FY 1980. We support this as a reasonable first-year level of funding.

Institutional Capacity Building

NLC has long recognized the need for consolidating and streamlining economic development planning and technical assistance activities. As I mentioned earlier, the NLC membership has realized that cities must make more of an effort to understand their local economies and plan for a more aggressive economic development role. This must be done by all cities, regardless of their current economic condition, and it must be done in a coordinated fashion so that it fits into regional and state plans. The planning and technical assistance authorities of NPWEDA reinforce the need for communities to develop the capabilities necessary to formulate

action-oriented strategies that will guide the investment of economic development resources. The League strongly endorses this approach.

Standby Public Works

In view of the fact that many private economic forecasters, as well as the Congressional Budget Office, believe that at least a mild recession is likely to occur later this year or next, NLC strongly urges the enactment of a standby anti-recessionary public works program to be triggered if the national unemployment rate reaches 6.5 percent. The Administration has proposed a similar standby program in its targeted fiscal assistance bill. As you know, there is a substantial backlog of public works projects which were not funded under the accelerated public works program, and consequently there would be little delay in getting such a program underway.

Conclusion

In closing, let me repeat that NLC believes that EDA has demonstrated its ability to cooperate with local governments in devising and executing local development programs that encourage greater private sector investments. We enthusiastically support and endorse the proposed reauthorization, consolidation, and strengthening of the National Public Works and Economic Development Act of 1979.

I thank the Chairman and Members of the Subcommittee for this opportunity to present the view of the National League of Cities.

Statement by:

National Association of Counties

Offices • 1735 New York Avenue N.W., Washington, D.C. 20006 • Telephone (202) 785-9577

Bernard F. Hillenbrand, Executive Director

STATEMENT BY

COMMISSIONER THOMAS J. BARRETT

MAHONING COUNTY, OHIO

ON BEHALF OF

THE NATIONAL ASSOCIATION OF COUNTIES

BEFORE

THE SENATE SUBCOMMITTEE ON COMMUNITY AND REGIONAL DEVELOPMENT

ON

S. 914 THE NATIONAL PUBLIC WORKS AND
ECONOMIC DEVELOPMENT ACT OF 1979

APRIL 25, 1979
WASHINGTON, D. C.

STATEMENT OF COMMISSIONER THOMAS J. BARRETT, MAHONING COUNTY, OHIO, ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES, BEFORE THE SENATE SUBCOMMITTEE ON COMMUNITY AND REGIONAL DEVELOPMENT, ON S. 914 THE NATIONAL PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1979, APRIL 25, 1979, WASHINGTON, D. C.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO REPRESENT THE VIEWS OF THE NATIONAL ASSOCIATION OF COUNTIES*. MY NAME IS THOMAS J. BARRETT AND I AM A COUNTY COMMISSIONER FROM MAHONING COUNTY, OHIO. YOU HAVE BEFORE YOU S. 914 PROPOSED BY THE ADMINISTRATION WHICH WOULD REAUTHORIZE AND SUBSTANTIALLY MODIFY THE GRANT AND LOAN PROGRAMS FIRST AUTHORIZED UNDER THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965.

NACo'S COMMUNITY DEVELOPMENT POLICY COMMITTEE MET A FEW WEEKS AGO TO FORMULATE THE ASSOCIATION'S POLICY WITH RESPECT BOTH TO THE REORGANIZATION OF THE ECONOMIC DEVELOPMENT ADMINISTRATION AND THE REAUTHORIZATION OF ITS VARIOUS GRANT AND LOAN PROGRAMS. ATTACHED TO THIS STATEMENT ARE TWO RESOLUTIONS STATING NACo'S POLICY -- ONE ON REORGANIZATION OF EDA AND ONE ON REAUTHORIZATION OF EDA. ALSO ATTACHED IS A RESOLUTION OF NACo'S RURAL AFFAIRS COMMITTEE OPPOSING THE TRANSFER OF THE BUSINESS AND INDUSTRIAL LOAN PROGRAM FROM THE FARMERS HOME ADMINISTRATION TO EDA, WHICH IS PART OF NACo'S POLICY ON REORGANIZATION. I WOULD LIKE TO SPEND A FEW MOMENTS THIS MORNING DISCUSSING THESE RESOLUTIONS AS THEY RELATE TO THE PENDING LEGISLATION.

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* The National Association of Counties is the only national organization representing county government in the United States. Through its membership, urban, suburban and rural counties join together to build effective, responsive county government.

The goals of the organization are to:

- improve county government;
- serve as a national spokesman for county government;
- act as a liaison between the nation's counties and other levels of government;
- achieve public understanding of the role of counties in the federal system.

REORGANIZATION OF EDA

AS YOU KNOW THE ADMINISTRATION HAS ANNOUNCED ITS INTENTION TO ASK THE CONGRESS FOR AUTHORITY TO REORGANIZE AND GREATLY EXPAND THE ECONOMIC DEVELOPMENT LOAN AND LOAN GUARANTEE PROGRAMS CURRENTLY CONTAINED WITHIN EDA, TOGETHER WITH THOSE OF THE SMALL BUSINESS ADMINISTRATION, THE BUSINESS AND INDUSTRIAL LOAN PROGRAM OF THE FARMERS HOME ADMINISTRATION, AND WHAT WAS ORIGINALLY PROPOSED AS THE NATIONAL DEVELOPMENT BANK. THE PURPOSE OF THIS REORGANIZATION IS TO CONSOLIDATE THESE PROGRAMS INTO A SINGLE ECONOMIC DEVELOPMENT FINANCING MECHANISM IN ORDER TO AVOID DUPLICATION AND IMPROVE THEIR MANAGEMENT.

THE PROPOSAL ALSO PROVIDES FOR A CONSOLIDATION OF THREE SEPARATE ECONOMIC DEVELOPMENT GRANT PROGRAMS INTO A SINGLE STREAMLINED ECONOMIC DEVELOPMENT GRANT PROGRAM, GREATER COORDINATION OF THE DEVELOPMENT PLANNING PROGRAMS OF HUD, FARMERS HOME ADMINISTRATION AND EDA, AS WELL AS INCREASED AUTHORIZATION OF $275 MILLION EACH FOR HUD'S URBAN DEVELOPMENT ACTION GRANT PROGRAM AND EDA'S TITLE IX ECONOMIC ADJUSTMENT PROGRAM.

MR. CHAIRMAN, WITH A SINGLE, BUT SIGNIFICANT EXCEPTION, NACo SUPPORTS THE ADMINISTRATION'S REORGANIZATION PROPOSAL AND URGES THAT CONGRESS PERMIT IT TO GO FORWARD WHEN IT IS PROPOSED AS A REORGANIZATION PLAN LATER THIS SPRING.

THE SINGLE EXCEPTION IS THAT NACo OPPOSES THE TRANSFER OF THE BUSINESS AND INDUSTRIAL LOAN PROGRAM OF THE FARMERS HOME ADMINISTRATION TO EDA. OUR REASONING IS AS FOLLOWS.

THE DEPARTMENT OF AGRICULTURE CURRENTLY BEARS PRIMARY RESPONSIBILITY FOR MANY IMPORTANT FUNCTIONS AND SERVICES IMPACTING ON THE WELL BEING OF OUR NATION'S RURAL COUNTIES AND THEIR RESIDENTS. THE BUSINESS AND INDUSTRIAL LOAN PROGRAM, TOGETHER WITH VARIOUS RURAL DEVELOPMENT GRANT PROGRAMS, PROVIDES CRUCIAL ASSISTANCE

FOR THE RURAL DEVELOPMENT ACTIVITIES OF COUNTY GOVERNMENTS. THE PROPOSED TRANSFER OF THE $1.1 BILLION BUSINESS AND INDUSTRIAL LOAN PROGRAM WOULD REDUCE FmHA'S RURAL DEVELOPMENT LOAN AUTHORITY BY CLOSE TO 50 PERCENT AND WOULD SIGNIFICANTLY CURTAIL ITS ABILITY TO CONTINUE TIS BROAD RANGE OF SERVICES TO RURAL COMMUNITIES.

IN ADDITION, WERE THIS TRANSFER TO TAKE PLACE THERE IS NO GUARANTEE THAT THE CURRENT RECIPIENT POPULATION WOULD REMAIN THE SAME, I.E., RURAL AREAS UNDER 50,000 POPULATION, WITH PRIORITY TO AREAS UNDER 10,000 AND THERE WOULD LIKELY BE CONSIDERABLE UNCERTAINTY AMONG THE STAFF CURRENTLY CONDUCTING THE PROGRAM, BRINGING IT TO A VIRTUAL HAULT.

NACo, THEREFORE, URGES THIS SUBCOMMITTEE TO ALLOW PRESERVATION OF THE BUSINESS AND INDUSTRIAL LOAN PROGRAM WITHIN THE FARMERS HOME ADMINISTRATION.

REAUTHORIZATION OF THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965

AS YOU KNOW, MR. CHAIRMAN, THE ADMINISTRATION RECENTLY FORWARDED ITS PROPOSED LEGISLATION, S. 914, THE NATIONAL PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1979. THIS PROPOSAL, IN OUR VIEW, CONTAINS MANY POSITIVE FEATURES, AND ON THE WHOLE EMBODIES MANY OF THE PRINCIPLES SET FORTH IN NACo'S POLICY RESOLUTIONS. ALLOW ME TO ADDRESS MY REMARKS TO A FEW OF THEM.

MULTIYEAR AUTHORIZATION

WE NOTE THAT THE PROPOSED LEGISLATION CALLS FOR A SIX YEAR AUTHORIZATION FOR BOTH THE ECONOMIC DEVELOPMENT GRANT PROGRAM UNDER TITLE II AND THE DEVELOPMENT FINANCING LOAN PROGRAM UNDER TITLE III. THE FUNDING LEVEL OF $595 MILLION FOR GRANTS UNDER TITLE II FOR FISCAL YEAR 1980 ROUGHLY APPROXIMATES THE AMOUNT APPROPRIATED FOR EDA FOR THE CURRENT FISCAL YEAR. THE DEVELOPMENT FINANCING LOAN AND LOAN GUARANTEE PROGRAMS UNDER TITLE III PROVIDES FOR A GREATLY EXPANDED SOURCE OF ASSISTANCE TO ENCOURAGE

BUSINESS INVESTMENT AND REINVESTMENT IN DISTRESSED AREAS. BOTH THE FIVE YEAR AUTHORIZATION AND THE FUNDING LEVELS PROPOSED FOR FISCAL YEAR 1980 ARE CONSISTENT WITH,AND SUPPORTIVE OF, NACo POLICY AND WE URGE THEIR ADOPTION BY THE CONGRESS.

GRANT CONSOLIDATION

TITLE II OF S. 914 WOULD CONSOLIDATE THE PUBLIC WORKS GRANT PROGRAMS CURRENTLY ADMINISTERED UNDER TITLES I, IV AND IX OF THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965 INTO A SINGLE STREAMLINED AND FLEXIBLE GRANT PROGRAM. THIS GRANT PROGRAM WOULD PERMIT ELIGIBLE STATE AND LOCAL GOVERNMENTS TO USE THE FUNDS FOR THE DESIGN OF PUBLIC FACILITIES, LAND ACQUISITION AND SITE PREPARATION, CONSTRUCTION AND REHABILITATION OF PUBLIC FACILITIES AND SPECIAL PROJECTS TO PROVIDE IMMEDIATE JOBS FOR UNEMPLOYED PERSONS. TO A LARGE EXTENT THIS NEW FLEXIBLE GRANT PROGRAM RESEMBLES THE PRESENT EDA TITLE IX PROGRAM AND NACo STRONGLY SUPPORTS IT. SUCH FLEXIBILITY IN THE USE OF GRANT FUNDS IS ESSENTIAL TO PERMIT COMMUNITIES TO TAILOR ECONOMIC DEVELOPMENT ACTIVITIES TO MEET VARIED LOCAL CONDITIONS.

ELIGIBILITY SIMPLIFICATION

SECTION 4 OF S. 914 SETS FORTH A REVISED AND SIMPLIFIED ELIGIBILITY SYSTEM FOR THE PURPOSE OF QUALIFYING COUNTIES AND OTHER COMMUNITIES FOR EDA ASSISTANCE. THIS REVISED ELIGIBILITY SYSTEM IS INTENDED TO SIMPLIFY THAT WHICH IS CONTAINED IN THE 1965 ACT, MAKING IT EASIER TO UNDERSTAND AND ADMINISTER. UNDER IT, A COMMUNITY IS ELIGIBLE FOR ASSISTANCE IF IT MEETS ONE OR MORE OF THE FOLLOWING CONDITIONS:

- AN AVERAGE UNEMPLOYMENT RATE FOR THE LAST FIVE YEARS IN EXCESS OF THE AVERAGE NATIONAL UNEMPLOYMENT RATE:
- A PER CAPITA INCOME LEVEL WHICH IS 80% OR LESS OF THE NATIONAL PER CAPITA INCOME AVERAGE OR A NET JOB LOSS FOR THE LAST 5 YEARS:
- AN AVERAGE UNEMPLOYMENT RATE FOR THE LAST 24 MONTHS WHICH IS AT LEAST 1%

46-633 O - 79 -- 27

ABOVE THE NATIONAL UNEMPLOYMENT RATE AND WHICH IS AT LEAST 7.5%;

. A NET EMPLOYMENT LOSS

. A POVERTY POPULATION IN EXCESS OF 16.5% OF THE TOTAL POPULATION OF THE AREA.

IN ADDITION, ELIGIBILITY IS EXTENDED TO ANY SUBAREA WITHIN AN OTHERWISE NON ELIGIBLE JURISDICTION WHICH MEETS ANY ONE OF THE ABOVE CRITERIA. SUCH SUBAREA IS IS REFERRED TO AS A "POCKET OF DISTRESS".

MR. CHAIRMAN, NACo SUPPORTS A SIMPLIFIED ELIGIBILITY SYSTEM AND THE EXTENSION OF ELIGIBILITY TO SO CALLED "POCKETS OF DISTRESS". WE DO HOWEVER HAVE TWO CONCERNS:

1. WE UNDERSTAND FROM DISCUSSIONS WITH EDA OFFICIALS THAT IN APPLYING THE REVISED ELIGIBILITY CRITERIA THERE WOULD BE A NET ELIGIBILITY REDUCTION OF 35 COUNTIES NATIONWIDE OVER THE 2,118 COUNTIES CURRENTLY ELIGIBLE FOR THE PROGRAM. THIS MEANS THAT MANY COUNTIES, NOT PREVIOUSLY ELIGIBLE FOR EDA ASSISTANCE WOULD BECOME ELIGIBLE, WHILE MANY OTHERS WOULD LOSE ELIGIBILITY. EDA HAS NOT AS YET PRODUCED A LIST OF ELIGIBLE COUNTIES WHICH CONCERNS US AS I'M SURE IT DOES THE SUBCOMMITTEE.
   THUS, ALTHOUGH NACo SUPPORTS THE REVISED ELIGIBILITY CRITERIA, WE STRONGLY URGE THE CONGRESS TO MAINTAIN THE ELIGIBILITY OF THOSE COUNTIES AND OTHER COMMUNITIES CURRENTLY PARTICIPATING IN THE EDA PROGRAM FOR A PERIOD BEYOND THE 2 YEARS PROVIDED IN THE LEGISLATION. WE WOULD SUGGEST A PERIOD OF TIME BETWEEN 3 TO 5 YEARS AS BEING MORE APPROPRIATE.
2. WE FURTHER UNDERSTAND FROM DISCUSSIONS WITH EDA THAT THE POCKETS OF DISTRESS PROVISION WITHIN THE LEGISLATION IS SILENT ON WHETHER SUCH A POCKET WITHIN THE UNINCORPORATED AREA OF AN OTHERWISE NON ELIGIBLE COUNTY COULD BE ELIGIBLE FOR EDA ASSISTANCE. WE THEREFORE ASK THE SUBCOMMITTEE TO REFINE THIS PROVISION TO ENSURE THAT UNINCOPORATED POCKETS OF DISTRESS ARE AFFORDED THE SAME OPPORTUNITY TO QUALIFY FOR EDA ASSISTANCE AS DO POCKETS WITHIN INCORPORATED AREAS.

FINANCIAL INCENTIVES FOR JOINT CITY-COUNTY ECONOMIC DEVELOPMENT PROGRAMS

AS YOU KNOW, MR. CHAIRMAN, THE CURRENT EDA PROGRAM PROVIDES AN INCENTIVE, THROUGH BONUS GRANTS, TO COMMUNITIES FORMING AN ECONOMIC DEVELOPMENT DISTRICT. THIS PROVISION, UTILIZED BY MANY RURAL COUNTIES MAKES, A GOOD DEAL OF SENSE AND IS CONTINUED IN S. 914. WE THINK, HOWEVER, THAT THE SAME TYPE OF FINANCIAL INCENTIVE SHOULD BE EXTENDED TO COUNTIES AND CITIES WITHIN URBAN AREAS WHERE THE FORMATION OF AN ECONOMIC DEVELOPMENT DISTRICT MAY NOT BE POSSIBLE OR APPROPRIATE, IN ORDER THAT THEY MAY JOIN TOGETHER FOR ECONOMIC DEVELOPMENT PLANNING AND PROGRAMMING.

STANDBY COUNTERCYCLICAL LOCAL PUBLIC WORKS PROGRAM

MR. CHAIRMAN, NACo PROPOSES THAT PROVISIONS BE INCLUDED WITHIN S. 914 ESTABLISHING A STANDBY COUNTERCYCLICAL LOCAL PUBLIC WORKS CONSTRUCTION AND REHABILITATION GRANT PROGRAM, SIMILAR TO THAT CREATED IN 1976 AND EXTENDED IN 1977. SUCH A PROGRAM WOULD BE TRIGGERED BY A SUBSTANTIAL AND ABRUPT RISE IN NATIONAL UNEMPLOYMENT. MANY ECONOMISTS ARE PREDICTING A SHARP ECONOMIC DOWNTURN BY THE END OF THIS YEAR OR EARLY NEXT. GIVEN THE SUCCESS OF ROUNDS I AND II OF THE LOCAL PUBLIC WORKS PROGRAM IN REDUCING UNEMPLOYMENT AND CONSTRUCTING NEEDED PUBLIC FACILITIES, WE WOULD STRONGLY URGE YOU TO PROVIDE STANDBY AUTHORITY FOR IT.

IN SUMMARY, MR. CHAIRMAN, EDA IS A PROGRAM THAT WORKS. IT IS THE LIFELINE FOR MANY OF OUR COUNTIES AND CITIES. KNOWING OF YOUR DEEP COMMITMENT TO THESE PROGRAMS WE ARE CONFIDENT THAT WE CAN COUNT ON YOUR EARLY ACTION TO REAUTHORIZE THEM.

NACo COMMUNITY DEVELOPMENT
STEERING COMMITTEE RESOLUTION

Economic Development Reorganization

WHEREAS, the Administration is proposing through new legislation to reorganize the functions of the Economic Development Administration by consolidating those federal economic development loan and loan guarantee programs the Small Business Administration, the Farmers Home Administration, together with those formerly proposed as part of the National Development Bank, and Title II EDA Business loans into a single economic development financing administration; and

WHEREAS, such consolidation is intended to avoid duplication and improve management; and

WHEREAS, the proposed legislation will provide for a consolidation of three separate economic development grant programs currently administered by EDA into one streamlined economic development grant program for state and local governments; and

WHEREAS, the proposed reorganization proposal calls for increased authorization of $275 million each for HUD's Urban Development Action Grant program and EDA's Title IX Economic adjustment assistance program to be used in conjunction with the proposed new loan and loan guarantee programs originally proposed as part of the National Development Bank; and

WHEREAS, the proposal also calls for greater coordination of the development planning programs of the Departments of HUD, Commerce and Agriculture, together with the simplification of planning requirements; and

WHEREAS, county governments have an important stake in seeing that this economic development reorganization becomes a reality; therefore be it

RESOLVED That the NACo Community Development Steering Committee hereby urges the Congress to:

. approve the reorganization of economic development programs except the Business and Industrial Loan Program of FmHA proposed by the Administration.

Adopted March 11, 1979

Resolution No. 1
Rural Development Reorganization

Whereas, The Department of Agriculture bears primary responsibility for many important functions and services impacting on the well being of our nation's rural counties; and

Whereas, These programs provide crucial assistance for the rural development activities of county governments; and

Whereas, The programs of the Department of Agriculture also include protection for farmers, the conservation and enhancement of our renewable resources, protection, safety and wholesomeness of the nation's food supply, and enhancement of the nutritional well being of all Americans through research, education, and food distribution; and

Whereas, A strong and vigorous agriculture and abundant food supply is essential to the welfare of the nation; and

Whereas, The counties and people of rural America regard the Department of Agriculture as their prime source of advocacy and assistance; and

Whereas, The proposed transfer of the $1.1 Billion Business and Industrial Loan Program out of FmHA would reduce its rural development loan authority by close to 50%; and

Whereas, This transfer would significantly curtail the ability of FmHA to continue its broad range of services to rural communities; and

Whereas, Our nation's rural counties are in strong need of the services and programs provided by the Department and the Farmers Home Administration;

Therefore, be it Resolved, The National Association of Counties urges:

- The strength and vitality of the Department of Agriculture be assured as vital to the economic well being and existence of the nation's rural counties;

- The Department of Agriculture and Farmers Home Administration aggressively implement its responsibilities and fulfill its mandate to assist the nation's rural areas;

- The Business and Industrial Loan Program be preserved within the Farmers Home Administration.

Adopted by NACo Rural Affairs Committee Sunday, March 11, 1979.

NACo COMMUNITY DEVELOPMENT
STEERING COMMITTEE RESOLUTION

Reauthorization of the Economic Development Programs

WHEREAS, the current authorization of the various grant and loan programs established by the Public Works and Economic Development Administration of 1965, as amended and the Appalachia Regional Development Act of 1965 expire on September 30, 1979; and

WHEREAS, Congress must consider legislation reauthorizing these programs; and

WHEREAS, the Administration will be proposing a package of legislation shortly to implement its proposed Economic Development Administration reorganization as well as reauthorizing EDA's grant and loan programs and the Appalachia program; and

WHEREAS, county governments receive important and vital economic development assistance under these programs; and

WHEREAS, in the absence of specific legislative proposals it is nonetheless essential for NACo's Community Development Steering Committee to establish interim policy principles; therefore be it

RESOLVED That the NACo Community Development Steering Committee recommends the legislation reauthorizing economic development programs embody the following principles:

1. enabling legislation to implement the Administration's proposed reorganization of the Economic Development Administration including consolidation of loan and loan guarantee programs,except that of the Farmers Home Administration, and consolidation of grant programs to streamline and simplify them and make them better able to be used by county governments,

2. a minimum three year reauthorization of the Public Works and Economic Development Act and Appalachia Regional Development Act, at funding levels at least equal to those provided in fiscal year 1979,

3. simplification of eligibility requirements while at the same time maximizing the participation of counties, or "pockets of poverty" therein, suffering from persistent and substantial unemployment and underemployment,

4. in any determination of county unemployment statistics for purposes of eligibility and/or fund allocation, counties be given credit for unemployment statistics countywide,

5. maximum flexibility in the use of economic development funds so they may be tailored to varying local needs,

6. provision for a standby authority for a countercyclical public works construction and rehabilitation grant program to state and local governments to be triggered by a substantial national unemployment rate,

7. that fiscal 1980 appropriations for the economic development grant and loan programs and the Appalachia programs be at levels at least equal to those provided in fiscal 1979,

8. provide encouragement, through financial incentive, for cities and counties to jointly undertake economic development programs.

Adopted March 11, 1979

Supplement to Testimony Submitted by Commissioner
Thomas J. Barrett to the Subcommittee
on Regional and Community Development

The Youngstown-Warren area (Mahoning and Trumbull Counties) has long been a focal point of commercial activity in the highly-industralized northeastern quadrant of Ohio; the Mahoning Valley has in fact long been known as the "Steel Valley." Employment in the two-county area was approximately 222,500 in 1974, but by February of 1979 has dropped to 216,800.

Certainly a major factor in this decline was the sudden announcement by the Lykes conglomerate in September 1977 that operations of a major Youngstown facility would be curtailed, resulting in the termination of some 4,200 workers (Buss, Feitler and Redburn, 1979:1). Probably no decision has ever had such an effect on the Mahoning Valley: some consequences can be and have been measured; others are yet to be seen.

Since "Black Monday," when the shocking announcement was made, recovery in the Valley has been slow. Although it is true that a greater variety of human services now exists than was the case some years ago (Buss, et., al, 1979:1-2), and the unemployed need no longer rely as much on networks of relatives and friends for relief (Ginsberg, 1973), evidence suggests that these human services agencies have not alleviated the disastrous effects of the Valley's economic crisis to the degree that one might think.

There are many reasons for this. One is that people often don't know what services are available. Indeed, I recently had the opportunity to talk with Michel Barba, Director of Reconversion

for Unisor Steel. He related to me the story of a major industrial curtailment in a town where most of the residents had never been more than 10 miles from home. The effects of the shutdown were catastrophic in that people had no idea about how to seek relief or even where to look for new employment.

While the case of the Mahoning Valley is not quite that tragic, to say that the Valley has recovered would inexcuseably distort the facts. The evidence in Table I verifies the general picture of the Valley since September of 1977; manufacturing jobs and basic steel jobs have steadily declined. Non-manufacturing jobs have increased slightly, but not enough to absorb the slack; thus, laid-off steelworkers have been forced to take employment in poorer-paying manufacturing jobs. This is borne out by research done at Youngstown State University demonstrating that many reported difficulty in paying theirs (Buss, et al, 1979:10). The several tables apprended hereto present these trends in more graphic forms.

Many feel a reluctance to utilize the human services agencies that are available. While alienation from the system is not noticeably high, many nonetheless express a lack of efficacy:

> I still register with OBES (Ohio Bureau of Employment Services) once or twice a month, only to be countes, as the fact remains that I have been given no hope, or promise, of employment from them in over 14 months. At least not work around here. . . . I'm facing a crisis right now mentally as well as financially. OBES records don't show this and as far as I'm concerned are worthless. . . . Sure there's Welfare, but I'd rather be working and hopefully something will break before. Before Welfare I'll have

to use up my money, sell my car, . . . and perhaps sell my house. I could be dead by then and my problems solved.... (above taken from letter of 48 year old former steelworker).

This letter suggests not only the desire for "work, not welfare", but also strong ties to the area, whether they be ethnic, familial, social, etc. Morevoer, there is a great deal of mental stress involved in relocation--finding a new home, enrolling the children in a new school, and so forth.

The letter also suggests the rather mechanical nature of statistics.

Statistics, though, are both necessary and useful. The tables appended hereto suggest the serious nature of the Valley's economic plight. Table VI points out the drastic decline in basic steel from September of 1977 (the month of "Black Monday") to September of 1978-- over 15%! The general labor force has declined between September 1977 and the present; at the same time, the number of unemployed has risen almost continuously.

As noted, these statistics are useful, but they must be qualified in many ways. For example, the figures available from the Ohio Bureau of Employment Services do not account for those who either failed to register or those who have ceased to look for work due to frustration. Nor do they account for the month youths graduated from high school or college who have never registered. While the figures do have statistical devices built in to make them more useful than a mere head count, they are not completely accurate.

Secondly, the unemployment statistics are subject to great controversy. Many have argued that those included or not included seriously affect the unemployment rate (Singer, National Journal, Jan. 6, 1979). A presidential commission is at the present time studying this issue.

Thirdly, there have been suggestions that the "formal" system is not that which is most conducive to employment; that is, institutionalized employment channels often effectively thwart job-finding (Briggs, U.S. News & World Report, February 25, 1975).

Finally, we ought to consider the effects that unemployment has on people. Statistics cannot tell us about the worry, depression, mental illness, alcoholism, and so forth that accompany unemployment. Moreover, the effects have psychological, social, and economic ramifications. For instance, the loss of prestige and the material possessions that many steel workers enjoyed must be dealt with. And the implications for the economic system are manifold---one cannot know how many people decided not to buy new homes, cars, major appliances, and recreational machines due to the Valley's depressed condition.

Local government is also seriously affected. The loss of revenues due to fewer property taxes and smaller receipts from the sales tax can seriously affect the ability of local governments to effectively operate.

The effects of unemployment triggered by the Lykes decision, then, have seriously hampered growth in The Steel Valley. Particularly hard-hit have been 2 groups of special significance--veterans and minorities. This situation is particularly acute in Mahoning County. Table V demonstrates that the unemployed minorities in Mahoning County alone account for well over 1% of all persons unemployed in the State of Ohio. The stigmas often unfortunately attached to minorities make this a particularly threatening state of affairs.

The unemployment among veterans is equally serious. Over 5,000 veterans are unemployed in the two-county area. This is indeed a sad state of affairs for those who have so faithfully served their country.

In general, then, one may see the precarious economic condition of the Mahoning Valley as nearing the edge of the precipice. Unemployment has risen rather continuously since "Black Monday" in 1977. Table IV shows that this problem has been more acute in the Youngstown area than in either the State of Ohio or the United States as a whole. Moreover, the Table suggests that fluctuations in the economy have a more drastic effect on the area than the nation in general--probably because of the atmosphere of uncertainty in The Valley.

Yes, despite this, human services agencies have not aided the situation significantly (Buss, et al, 1979:2). This is due in part to the fact that these agencies are not responsive enough, that many people don't know about available services, or that many people will not use the agencies, either because they are too proud or because they feel them ineffectual. All of this indicates that jobs, not welfare, is what the Mahoning Valley wants and needs.

The diversification so far seems to be only in terms of more non-manufacturing jobs that pay less money. The future of the Valley seems to lie in a diversification program that will bring more manufacturing jobs. We in the Mahoning Valley realize that the Youngstown area may never again be a steel giant; we seek only the possible--an economically viable area of which we can be proud.

TABLE I

TOTAL EMPLOYMENT, YOUNGSTOWN-WARREN AREA
(IN THOUSANDS)

MONTH	BASIC STEEL	TOTAL MANUFACTURING	TOTAL NON-MANUFACTURING
SEPTEMBER 1977	26.1	82.8	127.3
DECEMBER 1977	24.0	82.3	126.5
MARCH 1978	22.4	78.5	127.8
JUNE 1978	22.2	78.4	134.5
SEPTEMBER 1978	22.3	80.7	134.7
DECEMBER 1978	21.7	80.9	135.3
FEBRUARY 1979	21.0	79.9	130.2

TABLE II

AVERAGE WEEKLY EARNINGS OF WORKERS IN YOUNGSTOWN-WARREN AREA, BY MONTHS

MONTH	BASIC STEEL	TOTAL MANUFACTURING	RETAIL TRADE	WHOLESALE TRADE
SEPTEMBER 1977	$ 358.09	$325.54	$133.45	$205.67
DECEMBER 1977	348.66	317.13	138.35	208.51
MARCH 1978	374.14	328.45	132.84	219.46
JUNE 1978	401.12	359.13	137.85	234.37
SEPTEMBER 1978	408.29	369.64	137.28	233.05
DECEMBER 1978	401.30	364.32	140.61	231.25
FEBRUARY 1979	388.61	359.16	135.73	237.51

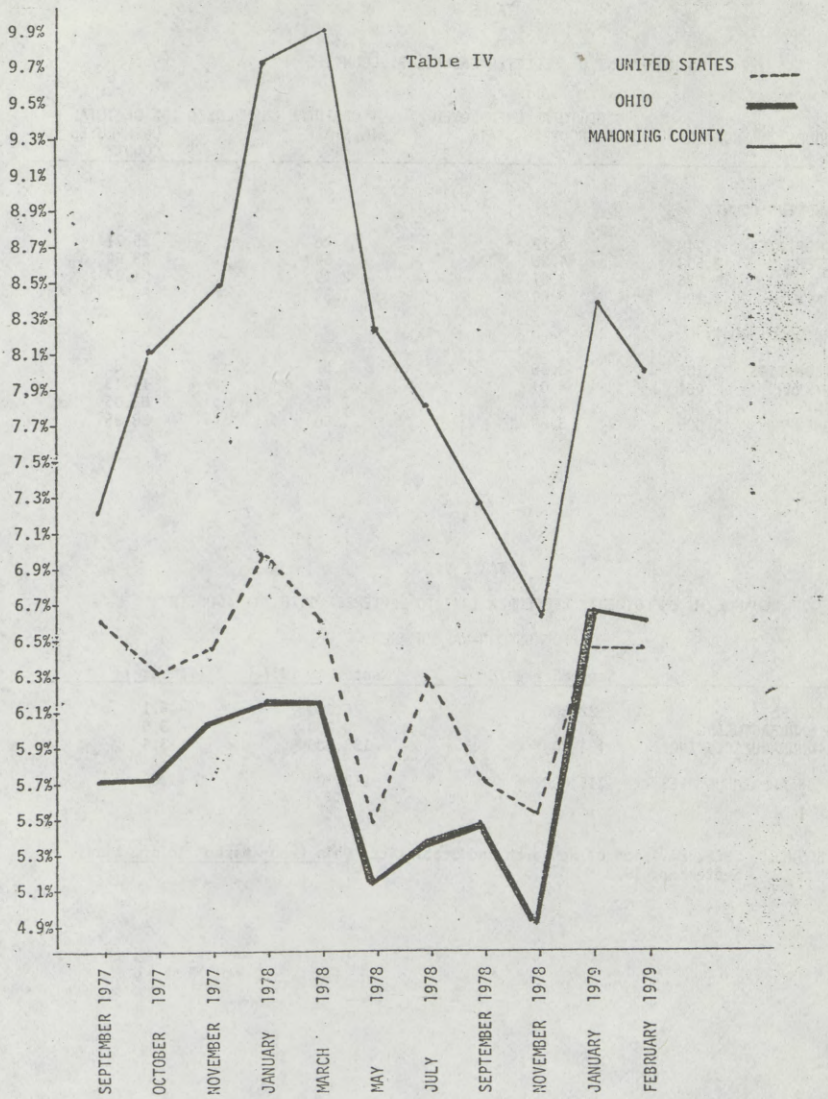
SOURCE: OHIO BUREAU OF EMPLOYMENT SERVICES, BUREAU OF RESEARCH AND STATISTICS, OHIO LABOR MARKET INFORMATION, MONTHS LISTED.

TABLE III

UNEMPLOYMENT IN MAHONING COUNTY, OHIO, BY SELECTED MONTHS

MONTH	LABOR FORCE	EMPLOYED	UNEMPLOYED	RATES		
				MAHONING COUNTY	OHIO	USA
SEPTEMBER 1977	131,679	122,167	9,512	7.2%	5.7%	6.6%
OCTOBER 1977	132,745	122,048	10,697	8.1%	5.7%	6.3%
NOVEMBER 1977	131,913	120,678	11,235	8.5%	6.0%	6.4%
JANUARY 1978	127,250	114,932	12,318	9.7%	6.1%	7.0%
MARCH 1978	125,843	113,364	12,479	9.9%	6.1%	6.6%
MAY 1978	127,792	117,375	10,417	8.2%	5.1%	5.5%
JULY 1978	131,201	120,941	12,260	7.8%	5.3%	6.3%
SEPTEMBER 1978	131,654	122,208	9,446	7.2%	5.4%	5.7%
NOVEMBER 1978	132,443	123,702	8,741	6.6%	4.9%	5.5%
JANUARY 1979	132,053	121,017	11,036	8.4%	6.6%	6.4%
FEBRUARY 1979	130,727	120,323	10,404	8.0%	6.5%	6.4%
AVERAGE	130,482	120,887	10,595	8.1%	5.8%	6.3%

SOURCE: OHIO BUREAU OF EMPLOYMENT SERVICES, OHIO LABOR MARKET INFORMATION, MONTHS LISTED



COMPARISON OF UNEMPLOYMENT RATES UNITED STATES - OHIO-MAHONING COUNTY

TABLE V

UNEMPLOYMENT OF SELECTED GROUPS, BY COUNTIES

GROUPS	NUMBER	% OF TOTAL UNEMPLOYED OF GROUP IN STATE	% OF TOTAL UNEMPLOYED IN STATE	% OF TOTAL UNEMPLOYED IN COUNTY
MAHONING COUNTY				
MINORITIES	3,940	4.79	1.26	35.71
VETERANS	2,608	4.26	.84	23.64
MEN	6,836	3.87	2.19	61.97
WOMEN	4,196	3.09	1.34	38.03
TRUMBULL COUNTY				
MINORITIES	2,106	2.56	.67	16.38
VETERANS	2,460	4.01	.79	19.13
MEN	7,852	4.44	2.51	61.05
WOMEN	5,009	3.69	1.60	38.95

TABLE VI

CHANGE IN EMPLOYMENT, SEPTEMBER 1977 TO SEPTEMBER 1978, BY INDUSTRY

YOUNGSTOWN-WARREN AREA

	September 1978	September 1977	(%change)
BASIC STEEL	22,300	26,300	-15.1
TOTAL MANUFACTURING	80,700	83,200	- 3.0
TOTAL NONMANUFACTURING	134,700	130,200	+ 3.4
TOTAL OF ALL INDUSTRIES	215,400	213,300	+1.0

SOURCE: OBES, Division of Research and Statistics, Ohio Labor Market Information, September, 1978

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46-633 O - 79 -- 28

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Executive Director Earl S. Mackey

STATEMENT BY

SENATOR HARRY MESHEL, OHIO

ON BEHALF OF THE

NATIONAL CONFERENCE OF STATE LEGISLATURES

ON S. 914

THE NATIONAL PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1979

BEFORE THE

SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT

SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

APRIL 25, 1979

INTRODUCTION

Thank you Mr. Chairman. I am Senator Harry Meshel of Ohio here today representing the National Conference of State Legislatures (NCSL).* We welcome the opportunity to appear before you today and present our views on the National Public Works and Economic Development Act of 1979. (NPWEDA).

I. IMPORTANCE OF ECONOMIC DEVELOPMENT REAUTHORIZATION OF EDA

Reauthorization of the Economic Development Administration (EDA) takes on particular significance in this economic climate. It is a time when governments at all levels are being asked to cut aggregate tax burdens of citizens, reduce public spending yet maintain provision of essential services. Looking at the phenominal growth and expansion of the scope of government, taxpayers might feel this easier than in reality, it is. We are all going through the pains of budget cutting to meet these demands. In this climate it becomes readily apparent that constant, massive inflows of federal dollars are no longer possible or desirable. Instead, the role of the private sector has been recognized as the most effective

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* The National Conference of State Legislatures, the official representative of the country's 7500 state legislators and their staffs, work to help lawmakers meet the challenges of the complex federal system. Headquartered in Denver, Colorado, with an Office of State-Federal Relations in Washington, D.C., the NCSL is a non-partisan organization funded by the states and governed by a 43-member Executive Committee.

The NCSL has three basic objectives:

-- To improve the quality and effectiveness of state legislatures;
-- To assure states a strong, cohesive voice in the federal decision making process; and
-- To foster interstate communication and cooperation.

SOURCE OF LONG-TERM ECONOMIC REVITALIZATION. THE PUBLIC ROLE BECOMES ONE OF ASSISTANCE AND INFLUENCING PRIVATE FUNDS TO EXPAND OR LOCATE IN AREAS WITH THE MOST PRESSING NEED. SUCH A ROLE CAN BE ACTIVE OR PASSIVE. IT IS NCSL'S VIEW THAT THE REAUTHORIZATION PROPOSAL WE ARE DISCUSSING TODAY PROVIDES THE MEANS FOR ALL LEVELS OF GOVERNMENT TO TAKE THE ACTIVE ROLE IN ECONOMIC DEVELOPMENT AND PARTICULARLY REVITALIZATION OF DISTRESSED AREAS.

EDA'S TOOLS HAVE BEEN USED EFFECTIVELY BY STATE GOVERNMENTS IN THE PAST FOR MANY ECONOMIC DEVELOPMENT ACTIVITIES ALTHOUGH THE RESOURCES AVAILABLE HAVE BEEN LIMITED.

II. CURRENT PROPOSALS

I WILL COMMENT BRIEFLY TODAY ON A FEW OF THE PROVISIONS OF INTEREST TO NCSL: THE ROLE OF STATES IN THE PROGRAM, INCLUSION OF A STANDBY PUBLIC WORKS PROGRAM, THE DEVELOPMENT FINANCE PROPOSALS, THE CHANGE IN STATISTICAL ELIGIBILITY REQUIREMENTS, AND PLANNING AND TECHNICAL ASSISTANCE.

THE ROLE OF STATES

THE ROLE STATES HAVE PLAYED IN PAST EDA PROGRAMS AND THE OPPORTUNITY TO EXPAND STATE INVOLVEMENT VIA THIS REAUTHORIZATION PROPOSAL IS OF PRIMARY IMPORTANCE TO NCSL. I HAVE MAINTAINED A PARTICULAR INTEREST IN ECONOMIC REVITALIZATION. MY HOME DISTRICT OF YOUNGSTOWN IS OFTEN MENTIONED AS AN AREA ECONOMICALLY DEVASTATED BY A MAJOR PLANT CLOSING, BUT WELL ON THE WAY TO RECOVERY. THE ROLE THE STATE PLAYED IN THIS EFFORT IS ONLY ONE EXAMPLE OF THE POSSIBILITIES WHICH EXIST. MY TESTIMONY ELABORATES ON OTHER SPECIFIC EXAMPLES OF

STATE PROGRAMS, SO I WILL NOT REPEAT THEM HERE.

I WILL DEAL, HOWEVER, WITH THE SPECIFIC PROVISIONS FOR STATE PARTICIPATION IN THE TITLE II PUBLIC WORKS GRANT PROGRAM. UNDER THE PROPOSAL, STATES ARE LIMITED TO $40 MILLION TO CARRY OUT APPROVED STATE STRATEGIES. IN ITS FY80 BUDGET PROPOSAL, EDA IS FURTHER LIMITING THIS AMOUNT TO THE $20 MILLION ORIGINALLY REQUESTED FOR THE OLD SECTION 304 PROGRAM.

ONE FURTHER CHANGE IS SIGNIFICANT. UNDER THIS REAUTHORIZATION, STATE FUNDING WILL REVERT FROM A FORMULA ALLOCATION UNDER SECTION 304 TO A TOTALLY DISCRETIONARY PROGRAM. WE HAVE A NUMBER OF RESERVATIONS ABOUT THIS CHANGE. WE FEEL THAT THE DISCRETIONARY ALLOCATION OF ALL STATE FUNDS DOES NOT LEAVE THE STATES WITH THE ABILITY TO COORDINATE THEIR ACTIVITIES THAT A KNOWN AMOUNT OF FUNDING ALLOWED. WE ARE NOT UNSUPPORTIVE, HOWEVER, OF THE NEED FOR FLEXIBILITY WITHIN EDA TO FUND INNOVATIVE PROJECTS. WE WOULD SUGGEST A MIX OF THE APPROACHES UNDER A HIGHER CAP OF FUNDING. IN THIS WAY SUFFICIENT FUNDING WOULD BE ASSURED TO CARRY OUT A MINIMUM PROGRAM LEVEL WHILE ENCOURAGING STATES TO UNDERTAKE MORE INNOVATIVE PROJECTS AND ALLOWING EDA THE FLEXIBILITY TO FUND SUCH PROJECTS IN ADDITION TO THE REGULAR STATE PROGRAM.

WE WOULD ALSO SUGGEST A SECOND SET-ASIDE FOR STATE AND LOCAL REVOLVING FUNDS. WHILE CAPITALIZATION OF THESE REVOLVING FUNDS IS AN ELIGIBLE ACTIVITY, WE FEEL THAT EMPHASIS SHOULD BE PLACED ON THIS ASPECT. THESE FUNDS HAVE BEEN OPERATING SUCCESSFULLY IN MANY AREAS AS AN EFFECTIVE ECONOMIC DEVELOPMENT TOOL AS WELL AS AN EFFICIENT USE OF SCARCE RESOURCES. WITHOUT THIS SET-ASIDE, HOWEVER, WE ARE CONCERNED THAT FUNDING WILL BE ALLOCATED MORE FREQUENTLY TO THE MORE EASILY ADMINISTERED, BUT SHORTER-TERM PUBLIC WORKS PROJECTS. THESE PROJECTS

SERVE A NECESSARY PURPOSE, BUT WE FEEL REVOLVING FUNDS DESERVE PARTICULAR ATTENTION.

Standby Public Works

To deal with situations such as the closing in Youngstown, we are especially interested in the sudden, severe economic dislocation aspect of EDA's proposal, especially in light of the lack of countercyclical public works program. We are in a period of economic uncertainty. The debate over the possibility or certainty of a recession and how severe such a recession would be is raging.

Sudden, severe dislocation programs should be able to identify such areas quickly and involve a minimum of delay in certifying the area for assistance. They should also be responsive to the empirical evidence that such areas recover more slowly than the national economy from such downturns, by continuing such assistance for a sufficient period of time. Dislocation programs should respond not only to trends in the national economy, but to direct federal or private sector actions which trigger such dislocations even in a healthy economy. These actions can be just as devastating as economic woes.

To combat more widespread severe dislocation, NCSL would call upon Congress to add an important element to the reauthorization proposal. A standby countercyclical public works program should be an integral part of any federal economic development effort. The Local Public Works Program enacted as part of the 1974-75 anti-recession package is a testimony to EDA's efficiency and to foresight of the Congress. Yet, we have been asked in this reauthorization not only to accept less efficiency, but also the exclusion of a pro-

GRAM WHICH WOULD ADD NO ADDITIONAL FUNDING TO THE PROPOSED BUDGET AND WOULD ALLOW QUICK RESPONSE SHOULD A RECESSION BECOME A REALITY. IT SIMPLY DOES NOT MAKE SENSE FOR SUCH A PROGRAM TO BE EXCLUDED. WE SUPPORT THIS STANDBY APPROACH AND HOPE THE SUBCOMMITTEE WOULD INCLUDE SUCH A PROGRAM IN THE LEGISLATION.

Development Finance

ONE OF THE MOST DRAMATIC FEATURES OF THE REAUTHORIZATION PROPOSAL IS THE CONSOLIDATION OF THE BUSINESS FINANCE PROGRAM. THE PROPOSED LEGISLATION WOULD GREATLY EXPAND EDA'S CAPACITY TO ASSIST BUSINESSES IN ELIGIBLE AREAS. WE APPLAUD THE IMPROVEMENTS EDA HAS PROPOSED IN ITS EXISTING PROGRAM, BUT CONTINUE OUR CALL FOR FURTHER INVOLVEMENT OF STATE DEVELOPMENT FINANCE CORPORATIONS IN THESE ACTIVITIES. MANY STATE DEVELOPMENT CORPORATIONS SUCH AS THE PENNSYLVANIA INDUSTRIAL DEVELOPMENT ADMINISTRATION HAVE BEEN IN OPERATION FOR MANY YEARS CONSIDERING APPLICATIONS FROM BUSINESSES ON MUCH THE SAME BASIS AS THE EDA'S PROPOSAL. IN OTHER STATES SUCH MECHANISMS ARE MORE RECENT, BUT POSSESS THE SAME POTENTIAL FOR SUCCESS. WITH TECHNICAL ASSISTANCE FROM EXPERTS AT THE FEDERAL LEVEL, THIS SUCCESS COULD BE ENHANCED AND HASTENED. NCSL BELIEVES THESE DEVELOPMENT FINANCE AGENCIES CAN SERVE AS A NETWORK FOR THE FEDERALLY BASED LOAN PROGRAM, PACKAGING AND AUGMENTING RESOURCES AT ALL LEVELS OF GOVERNMENT.

Statistical Eligibility

JURISDICTIONS UNDER THIS LEGISLATION WILL CONTINUE TO BE SUBJECTED TO ELIGIBILITY TESTS, BUT WE BELIEVE THE REVISED CRITERIA AS THEY ARE PROPOSED PROVIDE A BALANCED BUDGET DISTRIBUTION OF FUNDS RECOGNIZING THE PRESSING NEEDS OF URBAN AND RURAL STATES. THE PROPOSAL RECOGNIZES THE SEVERE UNEMPLOYMENT PROBLEMS IN MANY STATES, AND OUR NEED TO CREATE NEW JOB OPPORTUNITIES FOR OUR INCREASING NUM-

BERS OF UNEMPLOYED WOMEN, YOUTHS, AND MINORITIES. WE DO NOT FAIL TO RECOGNIZE, HOWEVER, THAT DISTRESS COMES IN MANY FORMS. WORKING WITH MY LEGISLATIVE COLLEAGUES THROUGH NCSL, IT IS EASY TO SEE THAT ATTENTION NEEDS TO BE PAID TO THOSE AREAS WHERE PERSISTENT UNDER-EMPLOYMENT RESULTING IN LOW PER CAPITA INCOME IS ANOTHER SYMPTOM OF THE SAME DISEASE. WE BELIEVE EDA HAS ATTEMPTED TO TARGET ITS ASSISTANCE WHILE ADDRESSING AREAS OF NEED REGARDLESS OF WHETHER RURAL OR URBAN.

UNDER THE NEW CRITERIA THE NUMBER OF METROPOLITAN COUNTIES ELIGIBLE WOULD BE REDUCED, HOWEVER, IF THIS REDUCTION REPRESENTS A MORE EFFECTIVE MEANS OF TARGETING ASSISTANCE TO PEOPLE IN NEED AND IF SUCH A REDUCTION COULD BE AMELIORATED BY AN EFFECTIVE POCKETS OF POVERTY PROVISION, THIS DROP COULD REPRESENT AN EFFECTIVE MEANS OF REACHING DISTRESS IN BOTH URBAN AND RURAL AREAS.

PLANNING AND TECHNICAL ASSISTANCE

NCSL HAS LONG BEEN AN ADVOCATE OF ADEQUATE FUNDING FOR PLANNING AND TECHNICAL ASSISTANCE AND HAS FURTHER SUPPORTED CONSOLIDATION OF THESE AND OTHER ACTIVITIES. EDA HAS CONSOLIDATED MANY OF ITS PLANNING PROGRAMS WITHIN ITS OWN REAUTHORIZATION PROPOSAL TO ITS ADVANTAGE. WE HOPE THIS PROPOSAL WILL ALSO RECOGNIZE TO A SIGNIFICANT DEGREE THE COORDINATION WHICH MUST TAKE PLACE BETWEEN ALL LEVELS OF GOVERNMENT IF OEDP'S ARE TO BE EFFECTIVE. OEDP'S MUST BE THE FOUNDATION FOR INVESTMENT DECISIONS. IN A TIME OF SCARCE RESOURCES, PLANNING MUST BE A MEANINGFUL ACTIVITY, NOT SIMPLY AN EXERCISE. WE WOULD EXPECT THAT, AT A MINIMUM, EDA'S OWN INVESTMENT DECISIONS WOULD BE GUIDED BY SUCH PLANS AND TO THE EXTENT FEASIBLE THOSE OF OTHER FEDERAL AGENCIES. MORE COMPLEX IS THE ISSUE OF MULTI AND

INTRA-STATE COORDINATIONS. INTERGOVERNMENTAL COOPERATION BETWEEN STATES AND REGIONAL COMMISSIONS, AND LOCALITIES AND THEIR STATES ARE DELICATE. EDA COULD ENCOURAGE SUCH COORDINATION BY GRANTING PRIORITY TO PROJECTS WHICH ARE CONSISTENT WITH BOTH STATE AND LOCAL POLICY OBJECTIVES. WE WOULD ALSO ENCOURAGE EDA TO RETAIN STATE APPROVAL OF OEDP'S FORMULATED BY ECONOMIC DEVELOPMENT DISTRICTS. THESE DISTRICTS, CREATED BY STATE STATUTE, SHOULD COORDINATE THEIR ACTIVITIES WITH THOSE UNDERTAKEN BY THE STATE DIRECTLY. STATE GOVERNMENTS INCLUDING STATE LEGISLATURES, CANNOT BE EXPECTED TO CARRY OUT COMPREHENSIVE OEDP'S OR AUGMENT FEDERAL FUNDS WITH APPROPRIATE STATE FUNDS IF THEY ARE NOT INVOLVED IN THE PLANNING PROCESS AT THE SUBSTATE LEVEL.

III. EXAMPLES OF STATE ACTIVITY

INDEED MANY STATES HAVE UNDERTAKEN SUBSTANTIAL ACTIVITIES TO PROMOTE ECONOMIC DEVELOPMENT IN DISTRESSED AREAS IN MANY CASES WITHOUT ADDED FEDERAL ASSISTANCE. IN MY OWN STATE OF OHIO, THE LEGISLATURE PASSED AN IMPACTED CITIES ACT IN 1973 TO ALLOW PRIVATE DEVELOPERS TO ENTER INTO AGREEMENTS WITH MUNICIPALITIES TO REDEVELOP "BLIGHTED" AREAS IN RETURN FOR A "FREEZE" ON TAXES AT THE PRE-REDEVELOPMENT LEVEL. UNLIKE A TAX ABATEMENT, TAXES CONTINUE TO BE PAID AND IN SOME CASES, SUCH AS THE BUILDING OF THE WORLD HEADQUARTERS OF NATIONWIDE INSURANCE COMPANY IN COLUMBUS, OHIO, THE CORPORATION HAS AGREED TO REFUND TO THE CITY AN AMOUNT EQUAL TO THE TAXES ABATED. THE CITY MUST THEN USE THE FUNDS FOR IMPROVEMENTS IN THE AREA SURROUNDING THE DEVELOPMENT. STATE APPROVAL FOR SUCH PROJECTS HAS BEEN

GRANTED TO 31 OHIO CITIES. SUCH PROJECTS HAVE CONCENTRATED ON LARGE DOWNTOWN DEVELOPMENTS IN OHIO'S CENTRAL CITIES; HOWEVER, SMALL CITIES AND RURAL UNINCORPORATED AREAS HAVE NOT BEEN NEGLECTED. THEY HAVE BEEN BENEFITED BY ANOTHER PIECE OF REDEVELOPMENT LEGISLATION, THE COMMUNITY REINVESTMENT AREA TAX EXCLUSION ACT PASSED IN 1977. IT IS UNCOMPLICATED AND CAN BE EASILY IMPLEMENTED BY COMMUNITIES OF ALL SIZES. UNDER THE ACT IMPROVEMENTS TO PROPERTY IN DESIGNATED AREAS ARE EXEMPTED FROM PROPERTY TAXATION. IT HAS PROVED TO BE A POPULAR REDEVELOPMENT TOOL ORIENTED TOWARD RENOVATION. THE OHIO LEGISLATURE ALSO ENACTED AN URBAN LAND REUTILIZATION PROGRAM TO AID CITIES IN OBTAINING TITLE TO TAX DELINQUENT PROPERTY AND MAKING IT AVAILABLE FOR DEVELOPMENT AND A TAX INCREMENT FINANCING LAW.

THE NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY HAS BEEN OPERATING SINCE 1974. THIS AUTHORITY WAS ORIGINALLY CREATED TO ISSUE INDUSTRIAL REVENUE BONDS AND THROUGH 1978 HAS ISSUED SOME $547 MILLION IN IDB'S STIMULATING $860 MILLION IN INVESTMENT AND CREATING 27,000 PERMANENT JOBS. THE AUTHORITY HAS ALSO BEEN ABLE TO MAKE LOANS AND LOAN GUARANTEES SINCE 1975. ACTIVITIES UNDER THIS ACT WERE EXPANDED FURTHER BY THE ADDITION TO THE ECONOMIC DEVELOPMENT AUTHORITY OF THE URBAN LOAN AUTHORITY. THIS TRANSFER ADDED TO THE TOTAL PACKAGE LOANS TO SMALL BUSINESS AND ENHANCED THIS SMALL BUSINESS COMPONENT BY A CONSOLIDATED APPROACH.

STATE-FEDERAL COOPERATIVE PROJECTS HAVE ALSO PLAYED AN IMPORTANT ROLE. NEW JERSEY HAS USED ITS 304 FUNDS TO UNDERTAKE TWO MAJOR INDUSTRIAL PARK PROJECTS. THE STATE APPROPRIATED $3 MILLION TO PURCHASE URBAN INDUSTRIAL TRACTS IN EACH CITY. STATE FUNDS ARE BEING COMBINED WITH SECTION 304 FUNDS TO REDUCE THE COSTS OF THE PROJECTS

SIGNIFICANTLY. IN ANOTHER SUCH COOPERATIVE EFFORT STATE AND FEDERAL GUARANTEES MADE POSSIBLE A $94 MILLION PROJECT. SUCH COOPERATIVE EFFORTS ARE THE TYPE WE ENCOURAGE AS PART OF THE EXPANDED STATE INVESTMENT AND DEVELOPMENT FINANCE PROGRAMS.

IN CONNECTICUT, THE CONNECTICUT DEVELOPMENT AUTHORITY FINANCES BONDS TO SMALL AND MEDIUM SIZE COMPANIES UNDER AN UMBRELLA BOND PROGRAM FOR LAND, BUILDINGS, MACHINERY, AND EQUIPMENT INCLUDING POLLUTION CONTROL EQUIPMENT. THE PROGRAM WILL FINANCE UP TO $1 MILLION PER PROJECT ($500,000 FOR EQUIPMENT OR MACHINERY). THE STATE GUARANTEES UP TO 90% OF THE COSTS. FROM ITS INCEPTION IN 1973 TO THE END OF 1978, NINETY-TWO LOANS HAVE BEEN MADE UNDER THIS AND THE SELF-SUSTAINING BOND PROGRAM FOR LARGER COMPANIES WHICH DOES NOT CARRY THIS STATE GUARANTEE, FOR A TOTAL OF $32.6 MILLION. THE NUMBER OF THESE LOANS HAVE BEEN ESCALATING DRAMATICALLY OVER THE LAST TWO YEARS WITH SUBSTANTIAL INCREASES PROJECTED. THESE LOANS ARE REPAID FROM REVENUES DERIVED FROM THE PROJECTS WHICH ARE PLACED INTO A RESERVE FUND.

CONNECTICUT ALSO OPERATES THE CONNECTICUT PRODUCT DEVELOPMENT AUTHORITY A QUASI-PUBLIC ENTITY CREATED BY THE LEGISLATURE IN 1972. THE AUTHORITY DELAYED OPERATIONS UNTIL 1974 FOLLOWING A COURT CHALLENGE. AS A VENTURE CAPITAL CORPORATION, IT STIMULATES NEW PRODUCT DEVELOPMENT BY SMALL AND MEDIUM SIZE COMPANIES. ITS LOANS, WHICH RANGE FROM $20,000 TO $250,000 ARE REPAID UP TO 5 TIMES THE INITIAL INVESTMENT BY ROYALTIES IN THE AMOUNT OF 5% OF THE PRODUCT'S SALES. PROJECTS ARE SELECTED BY STAFF FOR APPROVAL BY A BOARD OF DIRECTORS. TO DATE SOME $1,000,000 HAS BEEN DISTRIBUTED TO CLIENTS WITH SOME $8.9 MILLION REMAINING IN THE FUND. AS A VENTURE CAPITAL ORGANIZATION, DISTRIBUTIONS HAVE BEEN MADE ON A CONSERVATIVE BASIS UNTIL

A PORTFOLIO OF EXPERIENCE CAN BE STUDIED.

THE MASSACHUSETTS LEGISLATURE ADOPTED LAST SESSION A PACKAGE OF BILLS DESIGNED TO BOLSTER THE STATE'S ECONOMIC BASE. THE MASSACHUSETTS INDUSTRIAL FINANCE AUTHORITY WAS CREATED TO ISSUE INDUSTRIAL REVENUE BONDS AND PROVIDE TECHNICAL ASSISTANCE FOR SMALL COMMUNITIES, DOVETAILING WITH AUTHORITY UNDER THE SMALL BUSINESS ADMINISTRATION. A SECOND MEASURE EXPANDS THE USE OF INDUSTRIAL DEVELOPMENT BONDS TO ALLOW NON-MANUFACTURING INDUSTRIES TO TAKE ADVANTAGE OF THIS TOOL. THE URBAN JOB INCENTIVE PROGRAM WAS ALSO EXTENDED TO NON-MANUFACTURING INDUSTRIES. THE LEGISLATURE MADE THIS MOVE IN RECOGNITION OF THE CHANGING ECONOMY OF THE STATE TO SERVICE ORIENTED INDUSTRIES.

ASSISTANCE IN MASSACHUSETTS HAS BEEN TARGETED, JUST AS THIS REAUTHORIZATION PROPOSES TO TARGET ITS ASSISTANCE. THE MASSACHUSETTS TECHNICAL DEVELOPMENT CORPORATION PROVIDES SEED CAPITAL AND TECHNICAL ASSISTANCE TO SMALL SKILLED AND SEMI-SKILLED BUSINESSES WITH 50% OF SUCH ASSISTANCE DESIGNATED FOR TARGETED AREAS. INCREASES IN MORTGAGE GUARANTEES WERE PASSED TO INCLUDE REHABILITATION ACTIVITIES IN DISTRESSED AREAS OF THE STATE. OTHER ASSISTANCE SUCH AS DIRECT STATE AID ALSO REACHES THESE COMMUNITIES.

AS YOU CAN SEE, STATES HAVE ENACTED EFFECTIVE ECONOMIC DEVELOPMENT PROGRAMS WHICH DEAL WITH A VARIETY OF ECONOMIC SITUATIONS. WE FEEL PROVEN CAPACITY NOW EXISTS WITHIN STATES AND WOULD ENCOURAGE CONGRESS TO ASSIST STATES TO EXPAND THEIR EFFORTS.

I THANK YOU FOR THE OPPORTUNITY TO ADDRESS THE COMMITTEE TODAY AND WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.



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Committees:
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Legislative Budget Committee
Legislative Service Commission

Harry Meshel
33rd District
Assistant President Pro Tempore

STATEMENT OF SENATOR HARRY MESHEL

ON THE BALANCED BUDGET MOVEMENT

APRIL 25, 1979

BALANCED BUDGET

I am firmly convinced that we must control government spending. But, I am also convinced that amending the U.S. Constitution to require a balanced federal budget is too drastic an action to take to express and implement an economic policy. The ramifications of this action are many. The recent political rhetoric and rampant idealism is great. The assurances are minimal, however, that an amendment to the Constitution will accomplish the ultimate goal of the "balanced budget movement", or protect our society as it now exists.

I fear that the State of Ohio, including most of the cities in this State, will be big losers if the federal government decided to balance their budget.

A recent U.S. House Budget Committee staff report indicates that by rolling back federal grants made to states and local governments to fiscal 1975 levels, the federal government could eliminate the entire federal deficit for the coming year. This easy solution would cost the State of Ohio some $1.5 billion in federal aid. The $1.5 billion in lost federal dollars to Ohio would come from cuts in grant programs such as Medicaid, employment and training, elementary and secondary education, Community Development Block Grants, agriculture grants, temporary employment assistance, rehabilitiation programs for the young and elderly, Federal Highway grants, General Revenue Sharing, and many other major programs. To most of the cities in Ohio, this would be a crippling, if not fatal, blow. In 1979, federal dollars will account for as much as fifty percent of many cities' budgets. In 1960, this percentage was only 15%.

The State of Ohio could not begin to assume this awesome financial obligation under existing revenue levels. We simply do not collect enough

money through taxes and fees to enable us to pick up $1.5 billion worth of previously federally funded programs without increased revenues. According to the U.S. Department of the Treasury, federal aid to state and local governments increased fifty percent from 1975 to 1978. The major reason for this increased aid is the pressure placed on state and city budgets to pay for the broad array of programs and services demanded by its citizens. Federal assistance has been necessary to subsidize these budgets in order to meet those demands.

If these federal dollars were lost to Ohio and its citizens, either the programs would be dropped, or the replacement of the lost revenue would have to come from increased state and local taxes. That is the major trade-off we face with the possibility of a balanced federal budget. The increases in federal dollars to Ohio have allowed us to keep our own state and local taxes relatively lower than if this assistance was not forthcoming.

In fact, Ohio has never really received its fair share of federal taxes returned to the State through these grants. While Ohio receives .70¢ or .75¢ back from each dollar it sends to the federal government through taxes, some states receive as much as $1.10 or $1.20 or more for each federal tax dollar they send. Many of the states which are getting the greatest return on their federal taxes are those which have already passed or are considering the proposal calling for a balanced federal budget. These states have prospered at the expense of states like Ohio for years. A balanced federal budget will not nearly have the same dire effects on them as it will on Ohio.

Rather than demanding the federal government balance its budget, resulting in possible lost revenue to Ohio, I would prefer that Ohio receive back a larger proportion of the federal tax dollars we send to Washington.

Incidentally, in 1977, HJR 4 was introduced in the Ohio House of Representatives calling on the U.S. Congress to assume all of the costs of public

assistance (Welfare and Medicaid). The sponsors of this resolution recognized the inability of Ohio to maintain its 50% shared cost with the federal government due to budget limitations. They were, in essence, asking for hundreds of millions of dollars in additional federal aid.

Many of these same sponsors are also sponsors of HJR 13, which calls for a Constitutional amendment requiring a balanced federal budget. During its 1975-76 session, the Pennsylvania legislature passed Resolution 236 calling for a balanced federal budget. That same session passed Resolution 235, demanding a renewal of federal revenue sharing. Since additional federal aid and a balanced federal budget appear to be conflicting proposals, how can one support both? It's simple. The tune played on the bandwagon has changed.

HJR 13, like similar proposals in other states,was meant to be a symbolic gesture to the U.S. Congress reflecting the frustrations felt by the nation's taxpayers about runaway inflation and the growth of government spending. In this spirit of symbolism, a number of the states that first adopted the resolutions to adopt a Constitutional amendment to require a balanced federal budget, did so without any legislative hearings. Some states adopted the resolution by a simple voice vote, much in the same manner a legislator would vote for a resolution honoring an outstanding citizen. The issue was simply glossed over and not taken seriously.

A few of the states which passed their "symbolic" resolutions are beginning to think twice about what they have done. They realize that since only perhaps six states need to yet approve a Constitutional Convention resolution, their act of symbolism may result in reality.

And what is that reality? What would happen if a Constitutional Convention was called? If we look to history, we would find that the only Constitutional Convention ever held was in 1787. That Convention was called

to amend the Articles of Confederation which, at that time, was the document that held the newly formed states together. That convention repealed the Articles and wrote a brand new Constitution. The end result was not what everyone had originally expected. Our Country had suddenly embarked on a radically new course.

In today's political arena, special interest groups and one-issue politics predominate. The most vocal and the best financed interest groups often get their way in politics at the expense of others. If a convention were called today, no one could assure that the only amendment discussed would concern a balanced federal budget. The convention could be thrown wide open to any or all possible amendments to the Constitution, including abortion, legalization of marijuana, the equal rights amendment, or any other emotional issue of the day.

Of course, not only could the Constitution be amended, it could be repealed. As in 1787, a convention today could be called for one purpose and result in another. Someone once said "Times change, people don't."

Given the opportunity, many groups would try to mold the supreme law of our nation to suit their purposes. Even our precious Bill of Rights would be in jeopardy. I don't want that to happen. I don't believe anyone reading this would either.

The question yet to be answered, however, asks whether a mandatory balanced budget would actually accomplish the goals of the "balanced budget movement"? I don't believe so.

If the goal is to keep Congress from increasing federal spending by limiting the expenditures to the amount of revenue collected, the answer has to be no. Congress can always circumvent the intent by simply increasing taxes, collect more revenue, and increase their expenditures. If the goal is to wipe out the huge federal deficit, Congress could do that now

46-633 O - 79 -- 29

by either increasing taxes, cut aid to state and local governments as discussed earlier, or a combination of these and other methods.

In either case, we taxpayers would donate a larger chunk of our paychecks in the form of increased taxes to make up the difference of these cuts. Plainly, the amendment would have loopholes.

Would a balanced federal budget help the economy? Economic forecasters have indicated that if a balanced budget had been in effect over the last four or five years, the recession would have been even more severe and the recovery much slower. Experts have stated that slashing spending and/or raising taxes this year to balance the budget would have increased unemployment by over a million and led to a federal deficit of approximately $60 billion. For each 1% increase in unemployment, the government receives $17 billion less in revenues and must increase expenditures by $3 billion.

There have been no significant depressions in this country since the government started using federal spending to help pick up the economy. Without this federal fiscal policy, the private sector of our economy has ups and downs that significantly affects unemployment and prices. Federal spending helps to modify these peaks and valleys to avoid excessive unemployment and inflation. Our whole economy would be dependent on private business cycles if the federal budget were balanced. Congress would have its hands tied with an impotent national fiscal policy at the most critical times. For these and other reasons virtually all economists are against a mandatory balanced federal budget.

With the now serious deliberations on this issue in states like Ohio, a movement to stop the balanced budget amendment is underway. Almost all the major newspapers in Ohio are against any such amendment. The Cleveland

Press called it a "dubious" proposition, the Columbus Citizen-Journal called it "a bad idea," the Akron Beacon Journal called the idea "a bad one, full of potential dangers," and "ill-advised," the Youngstown Vindicator calls the convention "a gamble . . . making the opening of Pandora's Box seem like a blessing," and the Dayton Daily News called it " . . . hypocrisy . . . a faddish crusade."

Faddish or not, the possibility exists that this "crusade" for a Constitutional Convention may succeed. The Ohio Legislature must reject this proposal to prevent economic chaos for our State and Nation. We must reject the call for a Constitutional Convention which could divide our Nation and threaten the fundamental framework of our society.

As one Supreme Court Justice said, "Our Constitution is not a rubber ball to be tossed about and played with by each succeeding child. It embodies the essence of our system. There is no room in it for yesterday's whim or tomorrow's fancy."

After just celebrating the 200th year of the birth of our Nation, why jeopardize all that we are as a Nation because of an economic crisis? I don't think a Constitutional amendment to balance the federal budget will make our Nation stronger or better. Thay's why I am against this proposal.

CORRECTED TESTIMONY
APRIL 25, 1979

INFORMATION GIVEN FOR CONSIDERATION BY THE

SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT

BY THE
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S. 914
A BILL TO AMEND THE NATIONAL PUBLIC WORKS
AND ECONOMIC DEVELOPMENT ACT OF 1979

PRESENTED APRIL 25, 1979

INFORMATION GIVEN FOR CONSIDERATION BY THE

SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT

BY THE

AMERICAN ASSOCIATION OF SMALL CITIES
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MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT OF THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS, I am Mayor Robert Drakeford of Carrboro, North Carolina, and a director of the American Association of Small Cities. AS THE MAYOR OF A SMALL CITY AND AN OFFICER OF THE AMERICAN ASSOCIATION OF SMALL CITIES, I WANT TO THANK YOU FOR THE OPPORTUNITY TO MEET AND REASON WITH THE MEMBERS OF THIS SUBCOMMITTEE ABOUT A MATTER VITAL TO THE FUTURE ECONOMIC WELL-BEING OF THE 20,000 AMERICAN CITIES, TOWNS AND VILLAGES WITH UNDER 50,000 POPULATION AND THE RURAL AREAS SERVED BY THEM. WE TRUST THAT YOUR ACTIONS WILL RESULT IN EQUITY AND A FAIR SHAKE FOR SMALL CITIES AND RURAL AREAS.

PREPARATION OF THIS TESTIMONY HAS BEEN A COOPERATIVE EFFORT OF THE TASK FORCE OF MAYORS REPRESENTING THE AMERICAN ASSOCIATION OF SMALL CITIES WORKING THROUGH THE FOLLOWING

DISTINGUISHED LEADERS:

1) Honorable John Perritt, Mayor and President,
American Association of Small Cities
Ruston, Louisiana

2) Honorable Earl Lucas, Mayor and President-Elect,
American Association of Small Cities
Mound Bayou, Mississippi

3) Mayor Helen Shaw, Founder,
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4) Honorable Edith L. Brown, Mayor
George, Washington

5) Honorable J. Terry Wilson, Mayor
Victory Mills, New York

6) Honorable Robert Drakeford, Mayor
Carrboro, North Carolina

7) Honorable Joseph Marshall, Mayor
Clover Port, Kentucky

8) Honorable Johnnie B. Lee, Mayor and
Founding President, American Association of
Small Cities
Haltom City, Texas

9) Honorable Elwanda Burke, Past Mayor
and Charter Member of National Council of
Directors, American Association of Small Cities
Midwest, Wyoming

10) Honorable Gregory Flippins, Mayor and
Charter Member, National Council of Directors
American Association of Small Cities
Shaw, Mississippi

11) DR. ROY DUGGER, EXECUTIVE DIRECTOR
AMERICAN ASSOCIATION OF SMALL CITIES
703 EIGHTH STREET, S.E.
WASHINGTON, D.C. 20003

WE APPEAR BEFORE YOU TODAY TO DISCUSS THE PROPOSED NATIONAL PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1979 (S.914) (PWEDA), EXTENDING THE EDA AUTHORIZATION FOR SIX ADDITIONAL YEARS, AS CONTAINED IN THE ADMINISTRATION'S RECOMMENDATIONS FOR PUBLIC WORKS GRANTS AND BUSINESS FINANCING. REPRESENTING MY CITY AND THE AMERICAN ASSOCIATION OF SMALL CITIES, AND SPEAKING ON BEHALF OF THE 135 MILLION PEOPLE WHO RESIDE IN SMALL CITIES AND THE SURROUNDING COUNTRYSIDE, I URGE THAT THIS SUBCOMMITTEE, THE FULL COMMITTEE, AND THE SENATE AS A WHOLE ADOPT THE EXTENSION OF THE PWEDA FOR SIX YEARS. THIS BILL, WHEN FULLY FUNDED, CAN BECOME A MAJOR FORCE IN PERFECTING AN EFFICIENT AND EFFECTIVE SERVICE DELIVERY SYSTEM FOR THE MAJORITY OF AMERICAN CITIZENS THEREBY ENSURING THEM EQUITY AND FAIRNESS. ASSISTING SMALL CITIES AND RURAL AREAS TO ACHIEVE ECONOMIC DEVELOPMENT WILL BENEFIT THE ENTIRE NATION AND STIMULATE BALANCED ECONOMIC GROWTH.

THE ECONOMIC DEVELOPMENT NEEDS OF SMALL CITIES AND THE COUNTRYSIDE HAVE BEEN WELL DOCUMENTED OVER THE PAST SEVERAL DECADES. THE PWEDA HAS BEEN ONE OF THE FEW FEDERAL PROGRAMS WHICH RECOGNIZED THE UNIQUE SITUATION OF SMALL CITIES AND RURAL AREAS WITH REGARD TO ECONOMIC DEVELOPMENT. THIS PROGRAM HAS BY NO MEANS ADDRESSED ALL OF THE ECONOMIC DEVELOPMENT NEEDS OF THE SMALL CITIES NOR HAS IT PROVIDED ASSISTANCE TO ALL SMALL CITIES WHICH NEED IT. HOWEVER, WE SEE THE PROGRAM AS A FRIEND,

AND WE HOPE IT WILL REMAIN A FRIEND FAR INTO THE FUTURE.

WHILE IT IS TRUE THE ADMINISTRATION OF THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965 HAS HELPED PROVIDE ASSISTANCE TO MANY OF THE SMALL CITIES AND RURAL AREAS, THE IDEA THAT SMALL CITIES AND RURAL AREAS ARE NOW FLOURISHING HAS BEEN GREATLY EXAGGERATED. MOST OF THE BASIC PROBLEMS AFFECTING THESE AREAS STILL REMAIN, AND NEW PROBLEMS HAVE DEVELOPED. SMALL CITIES ARE FEELING THE IMPACTS OF A RETURN MIGRATION AND THE BURDEN OF PROVIDING SERVICES TO AN INCREASING NUMBER OF PEOPLE. PROVIDING WATER, SEWAGE COLLECTION AND TREATMENT, SOLID WASTE DISPOSAL, STREETS, SIDEWALKS, AND RECREATION FACILITIES IS TERRIBLY EXPENSIVE AND GETTING MORE EXPENSIVE EACH PASSING DAY.

LOCAL ECONOMIC DEVELOPMENT IS THE KEY TO BEING ABLE TO PROVIDE THOSE AND OTHER IMPORTANT MUNICIPAL SERVICES OVER THE LONG TERM. BUT MAKING A SMALL CITY ATTRACTIVE TO BUSINESS AND INDUSTRY AND COMPETITIVE FOR THAT PRIVATE INVESTMENT IS ALSO AN EXPENSIVE PROPOSITION. WHILE THERE ARE A NUMBER OF FEDERAL PROGRAMS WHICH CAN BE USED FOR LOCAL ECONOMIC DEVELOPMENT, THE ADMINISTRATION OF MANY OF THE PROGRAMS DOES NOT ADDRESS THE SPECIFIC NEEDS OF SMALL CITIES. THERE IS A LACK OF CO-OPERATION AMONG THESE PROGRAMS AT THE SERVICE DELIVERY LEVEL WHICH TENDS TO FRAGMENT THE OVERALL EFFORTS TO ACHIEVE ECONOMIC DEVELOPMENT FOR SMALL CITIES. THE KEY TO SUCCESSFUL PROGRAMS IS THE COOPERATION AMONG THOSE AT THE LOCAL LEVEL WHO DELIVER THE VARIOUS ASSISTANCE RATHER THAN THE NEBULOUS IDEA OF "COORDINATION" AT THE NATIONAL LEVEL. WE SEE THAT A

"ONE-STOP SHOPPING" APPROACH TO ECONOMIC DEVELOPMENT PROGRAMS AT THE SERVICE DELIVERY LEVEL, THE LOCAL LEVEL, WOULD GREATLY BENEFIT SMALL CITIES AND RURAL AREAS THROUGH STREAMLINING OF THE APPLICATION AND COMPLIANCE PROCESSES.

IT IS VITAL TO THE ECONOMIC DEVELOPMENT OF THE SMALL CITIES AND RURAL AREAS THAT THE PROGRAMS CURRENTLY AVAILABLE TO THEM BE MAINTAINED, EXPANDED IN CERTAIN KEY AREAS, AND IMPROVED THROUGH MORE EXPEDITOUS DELIVERY OF SERVICES. THE PWEDA IS ONE OF THE FEW FEDERAL PROGRAMS WHICH EVEN ADDRESSES ECONOMIC DEVELOPMENT OF THESE AREAS. IT HAS THE POTENTIAL TO MAKE A DIFFERENCE IN THE ECONOMIC VIABILITY OF THE 20,000 SMALL CITIES AND THE 135 MILLION PEOPLE WHO OCCUPY THOSE CITIES AND THE COUNTRYSIDE SERVED BY THEM, AND THEREBY, TO INCREASE THE ECONOMIC DEVELOPMENT OF THE ENTIRE NATION LEADING TO BALANCED ECONOMIC GROWTH.

SMALL CITIES HAVE NOT YET ACHIEVED EQUITY WITH THE LARGE URBAN CENTERS EVEN THOUGH THE RESIDENTS OF THOSE SMALL CITIES AND COUNTRYSIDE MAKE UP BETTER THAN 60% OF THE NATION'S POPULATION. FOR THE SAKE OF THIS MAJORITY, THE PWEDA SHOULD BE EXTENDED IN A FORM WHICH WILL ASSURE THAT SMALL CITIES AND RURAL AREAS WILL BEGIN TO RECEIVE THEIR FAIR SHARE OF ATTENTION IN THE FORM OF ECONOMIC DEVELOPMENT ASSISTANCE.

WHILE WE ARE CONVINCED THAT THE EXTENSION OF THE PWEDA IS IN THE BEST INTERESTS OF SMALL CITIES AND THE NATION AS A WHOLE, WE ARE DEEPLY CONCERNED ABOUT THE DIRECTION A NEW BILL MIGHT TAKE. WE ARE CONCERNED THAT IT MAY GO THE WAY OF OTHER FEDERAL ASSISTANCE PROGRAMS WHICH ALMOST EXCLUSIVELY EMPHASIZE THE REDEVELOPMENT

OF THE FEW LARGE CITIES AND CERTAIN LIMITED GEOGRAPHICAL AREAS.

THE NEW BILL PROPOSES NEW ELIGIBILITY CRITERIA WHICH REPORTEDLY IS DIRECTED TOWARD FIVE PRINCIPLES:

1) RESPONSIVENESS
2) BALANCE
3) TARGETING
4) SIMPLICITY
5) FLEXIBILITY

ON APRIL 10, 1979, MR. ROBERT T. HALL, ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT PRESENTED, BEFORE THIS SUBCOMMITTEE, THE NEW ELIGIBILITY CRITERIA IN HIS DISCUSSION OF THE PROPOSED LEGISLATION. IT SEEMS, FROM THIS DISCUSSION, THAT THE NEW LEGISLATION ATTEMPTS TO FOCUS ON THE ABOVE STATED CRITERIA BY ADDRESSING FIVE SITUATIONS FOR WHICH EDA HAS RESPONSIBILITY. THESE FIVE SITUATIONS ARE:

1) CHRONIC PROBLEMS OF DECLINE IN DEVELOPED COMMUNITIES;
2) PERSISTENT UNDERDEVELOPMENT AND LOW INCOME;
3) INCIPIENT ECONOMIC DETERIORATION;
4) SUDDEN AND SEVERE ECONOMIC DISLOCATION; AND
5) HIGHLY LOCALIZED AND CONCENTRATED DISTRESS.

INFORMATION PROVIDED TO THIS SUBCOMMITTEE WOULD SEEM TO INDICATE THAT ATTENTION WILL BE DIRECTED TOWARD THE PROBLEMS OF SMALL CITIES AND RURAL COMMUNITIES, BUT THIS IS DEPENDENT ON THE APPLICATION OF THE CRITERIA.

ON APRIL 10, 1979, THE HONORABLE JENNINGS RANDOLPH, SENATOR FROM WEST VIRGINIA, REQUESTED INFORMATION REGARDING THE APPLICATION OF THE PROPOSED ELIGIBILITY CRITERIA AND ITS POTENTIAL IMPACT

ON THE ELIBILITY OF CERTAIN AREAS IN COMPARISON WITH CURRENT LISTS OF ELIGIBILITY AREAS. IT IS OUR UNDERSTANDING THAT THIS COMPARISON IS NOT YET AVAILABLE, EVEN THOUGH THIS INFORMATION IS OF VITAL CONCERN TO THIS SUBCOMMITTEE, OURSELVES AS MAYORS OF SMALL COMMUNITIES, AND TO MANY OTHERS.

WE CAN VISUALIZE THAT IF THIS REDIRECTION CONTINUES, THE ELIGIBILITY CRITERIA MAY BE USED TO EFFECTIVELY EXCLUDE THE VAST MAJORITY OF SMALL CITIES AND RURAL AREAS BECAUSE WE LACK THE IDENTIFIABLE CONCENTRATION OF PEOPLE ALTHOUGH WE HAVE THE GREATEST TOTAL NEED IN TERMS OF NUMBER OF COMMUNITIES, NUMBER OF RESIDENTS, AND GEOGRAPHIC AREA.

WE ARE CONCERNED ABOUT THE PROPOSED LEGISLATION IN THAT IT OFFERS NO ASSURANCES TO SMALL CITIES THAT THEY WILL BE RAISED TO A POINT OF EQUITY AND GIVEN A FAIR SHAKE WITH OTHER AREAS IN THE DETERMINATION OF ECONOMIC ASSISTANCE. WE HAVE FOUND NO EXPRESS LANGUAGE IN THE PROPOSED LEGISLATION THAT LEADS US TO BELIEVE THAT THE OVERALL STRATEGY OF EDA WILL BE ANY DIFFERENT THAN IT HAS BEEN OVER THE PAST TWO YEARS. WE ARE CONCERNED ALSO BECAUSE A DETERMINATION OF ELIGIBILITY DOES NOT GUARANTEE ACCESS TO ECONOMIC DEVELOPMENT ASSISTANCE. IT IS CONCEIVABLE THAT AN AREA, SUCH AS A SMALL CITY, MAY IN FACT BE ELIGIBLE, BUT NEVER BE AWARDED ANY TYPE OF ASSISTANCE UNDER THIS ACT.

ACCORDING TO RESPONSIBLE SOURCES AT EDA, THE FUNDING DISTRIBUTION TWO YEARS AGO WAS 75% RURAL AND 25% URBAN. TODAY, IT IS IDENTIFIED AT HALF EACH FOR RURAL AND URBAN, A DECREASE OF 33-1/3% FOR THE RURAL AREAS. FURTHERMORE, THE FUNDING LEVEL

OF 50% (ALLOCATED TO RURAL POPULATIONS) TODAY IS ONLY SLIGHTLY HIGHER THAN THE 75% OF TWO YEARS AGO, IN SPITE OF THE INCREASES IN AUTHORIZATIONS. THE BULK OF "NEW" FUNDS HAS GONE TO THE URBAN CENTERS, AT THE EXPENSE OF SMALL CITIES AND THE COUNTRYSIDE.

WE MUST NOT ALLOW THE FEW LARGE CITIES AND LIMITED GEOGRAPHIC AREAS OF THIS COUNTRY TO MONOPOLIZE THE PROGRAM.

THE SMALL CITIES AND RURAL AREAS OF THIS NATION URGE THAT THE SUBCOMMITTEE ON REGIONAL AND COMMUNITY DEVELOPMENT, THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS, AND THE SENATE AS A WHOLE, ACT FAVORABLY UPON THE PROPOSAL OF THE NATIONAL PUBLIC WORKS & ECONOMIC DEVELOPMENT ACT OF 1979. THIS PROGRAM SHOULD, HOWEVER, ALSO BE EXPANDED TO ALLOW SMALL CITIES AND THE COUNTRYSIDE THROUGHOUT THE U.S. TO OVERCOME THE INEQUITIES WE FACE; TO PROSPER, AND TO CONTRIBUTE EVEN MORE TO THE ECONOMIC WELL-BEING OF THIS COUNTRY.

MR. CHAIRMAN, ALTHOUGH THE AMERICAN ASSOCIATION OF SMALL CITIES HAS TODAY ENDORSED THE PROPOSED EXTENSION OF THE LEGISLATION AUTHORIZING THE ACTIVITIES OF THE ECONOMIC DEVELOPMENT ADMINISTRATION UNDER THE DEPARTMENT OF COMMERCE, WE WOULD LIKE TO SUBMIT THE FOLLOWING RECOMMENDATIONS THAT WE, AS SMALL CITY MAYORS, FEEL WILL IMPROVE THE DELIVERY OF SERVICE BY EDA AND THUS PROVIDE THE FLEXIBILITY AND RESPONSIVENESS REQUIRED TO MEET THE ECONOMIC NEEDS OF OUR SMALL CITIES.

THESE ARE OUR RECOMMENDATIONS:

NUMBER 1.

WE RECOMMEND THAT THE ECONOMIC DEVELOPMENT ADMINISTRATION BE PROVIDED FUNDS AS MAY BE NECESSARY TO STRENGTHEN ITS ADMINISTRATIVE STRUCTURE IN A MANNER THAT WILL ENABLE THE AGENCY TO DIRECT EQUITABLE AMOUNTS OF TECHNICAL AND ECONOMIC ASSISTANCE TO OUR SMALL CITIES.

CURRENTLY, SOME OF THE EDA REGIONAL OFFICES ARE UNDERSTAFFED AND, AS A RESULT, ARE UNABLE TO PROVIDE ADEQUATE TECHNICAL ASSISTANCE AND RELATED SERVICES. THIS IS A HINDRANCE TO SMALL CITIES AND PERPETUATES THE LACK OF CAPACITY UPGRADING THAT IS VITALLY NEEDED BY OUR SMALLER COMMUNITIES. LACK OF ADEQUATE STAFF SUPPORT ALSO DELAYS THE PROCESSING OF APPLICATIONS SUBMITTED BY SMALL CITIES, MANY TIMES RESULTING IN THE LOSS OF MATCHING AID FROM OTHER FEDERAL AGENCIES DUE TO MISSED DEADLINES.

MR. CHAIRMAN, THIS RECOMMENDATION DOES NOT NECESSARILY REQUIRE ADDITIONAL APPROPRIATIONS. IT MAY BE THAT THE ECONOMIC DEVELOPMENT ADMINISTRATION CAN ADDRESS THIS CONCERN BY SIMPLY RESTRUCTURING PROGRAM FUNDS.

NUMBER 2.

WE RECOMMEND THAT THE ECONOMIC DEVELOPMENT

ADMINISTRATION CREATE THE POSITION OF DEPUTY ASSISTANT SECRETARY FOR SMALL CITIES.

CREATION OF THIS POSITION WOULD PROVIDE EDA WITH A BUILT-IN CAPACITY TO ADDRESS AND RELATE TO THE DIVERSE AND SPECIFIC NEEDS OF OUR NATION'S SMALL CITIES. ONE OF THE PRIMARY RESPONSIBILITIES OF A DEPUTY ASSISTANT SECRETARY FOR SMALL CITIES SHOULD BE THE PROMOTION OF INTER-AGENCY COOPERATION WITH OTHER FEDERAL AGENCIES INVOLVED IN PROVIDING ECONOMIC ASSISTANCE TO SMALL CITIES. THIS SHOULD BE EMPHASIZED ESPECIALLY AT THE LOCAL LEVEL. THIS WOULD PROVIDE FOR A CONCERTED EFFORT IN ADDRESSING THE ECONOMIC NEEDS OF OUR SMALL CITIES.

NUMBER 3.

WE RECOMMEND THE ECONOMIC DEVELOPMENT ADMINISTRATION MAKE EVERY EFFORT TO

PLACE ON ITS TECHNICAL ASSISTANCE STAFF, INDIVIDUALS WITH BACKGROUNDS IN THE AREA OF SMALL CITY MANAGEMENT, SINCE IT IS DIFFICULT FOR URBAN-ORIENTED EDA PERSONNEL TO RELATE TO THE NEEDS OF A PRIMARILY RURAL ROSTER OF SMALL CITIES.

WHILE URBAN AREAS ARE PRIMARILY FACED WITH COMBATTING DISTRESSED MATURE ECONOMIES, RURAL AREAS ARE CAUGHT ON THE HORNS OF A DILEMMA. ON ONE SIDE THEY ARE FACED WITH ADDRESSING THE NEEDS OF AN UNDERDEVELOPED ECONOMY, AND ON THE OTHER SIDE OF THE COIN THEY FACE THE ECONOMIC PROBLEMS CREATED BY THE FLIGHT OF BUSINESS AND INDUSTRY FROM THEIR SMALL CITIES DUE TO CHANGES IN INDUSTRIAL PRIORITIES PRIMARILY INFLUENCED BY THE EVERCHANGING DEMAND OF OUR NATION'S CONSUMERS AND THE STATE OF OUR NATIONAL ECONOMY.

WE ARE SIMPLY RECOMMENDING THAT EDA PERSONNEL HAVE A MULTIFACET ORIENTATION IN ORDER TO DEAL WITH RURAL AND URBAN ECONOMIC PROBLEMS IN AN EQUITABLE MANNER.

NUMBER 4.

WE RECOMMEND THE ECONOMIC DEVELOPMENT ADMINISTRATION MAKE EVERY EFFORT TO

STANDARDIZE AND SIMPLIFY THE REVIEW AND EVALUATION PROCESS OF GRANT APPLICATIONS SUBMITTED BY SMALL CITIES, WHICH WOULD PROVIDE CONSISTENCY IN THE REVIEW AND SELECTION OF PROJECTS TO BE FUNDED.

THIS WOULD PROVIDE SMALL CITIES WITH FIRM AND EXPLICIT DIRECTIONS IN THEIR DEVELOPMENT OF GRANT APPLICATIONS. THIS WOULD CERTAINLY BENEFIT SMALL CITIES SINCE THEIR STAFF CAPABILITIES ARE GENERALLY LIMITED AND CANNOT AFFORD THE LUXURY OF CONSTANT APPLICATION REVISION IN ORDER TO FULFILL FLUID AGENCY REQUIREMENTS.

NUMBER 5.

THE ECONOMIC DEVELOPMENT ADMINISTRATION SHOULD DEVELOP A FUNDING FORMULA WHICH WILL ENSURE EQUITALBE DISTRIBUTION OF FUNDS ALLOCATED TO A CERTAIN REGION, WHICH WILL CAN PREVENT AN IMBALANCE IN THE DISTRIBUTION OF FUNDS.

WE AS SMALL CITY MAYORS FEEL THAT FUNDS SHOULD BE EQUITABLY DISTRIBUTED SINCE ALL OUR COMMUNITIES HAVE SPECIFIC NEEDS.

NUMBER 6.

WE RECOMMEND THE ECONOMIC DEVELOPMENT ADMINISTRATION SET ASIDE 40% OF SUCH

FUNDS AS MAY BE AUTHORIZED FOR THE USE OF CITIES OF GREATER THAN 50,000 POPULATION, WITH THE BALANCE OF FUNDS RETAINED FOR USE IN SMALL CITIES OF LESS THAN 50,000 POPULATION AND THE COUNTRYSIDE SERVED BY THEM.

IT IS OUR SINCERE BELIEF THAT UNDER THE EXISTING COMPETITIVE PROCESS SMALL CITIES ARE NOT RECEIVING A FAIR SHARE OF AVAILABLE EDA PROJECT MONEY. THIS IS DIRECTLY LINKED TO THE INEQUITIES INHERENT IN THE LIMITED STAFF CAPACITIES OF SMALL CITIES VERSUS THE SOPHISTICATION AND EXPERTISE OF URBAN AREA STAFFS. THIS RESULTS IN EXPEDIENT AND WELL-DEVELOPED GRANT APPLICATION BY LARGE URBAN AREAS, WHICH RECEIVE FAVORABLE CONSIDERATION BY EDA, WHILE SMALL CITIES ARE STRUGGLING IN THEIR EFFORTS TO DEVELOP A COMPLETE APPLICATION AND IN MANY INSTANCES HAVING TO COMPLY WITH SEVERAL REVISIONS WHICH FURTHER DELAY THE CONSIDERATION OF THEIR FUNDING REQUEST. BY THE TIME SMALL CITY APPLICATIONS ARE FINALLY DETERMINED COMPLETE BY THE ECONOMIC DEVELOPMENT ADMINISTRATION, THE BULK OF ALLOCATED MONIES HAVE BEEN AWARDED TO URBAN AREAS. HOWEVER, OUR SET ASIDE RECOMMENDATION WOULD ENSURE THAT SMALL CITIES ARE

46-633 O - 79 -- 30

NOT PENALIZED FOR THEIR CAPABILITY LIMITATION AND WOULD PROVIDE FOR AN EQUITABLE DISTRIBUTION OF FUNDS.

NUMBER 7.

WE STRONGLY RECOMMEND THAT THE ECONOMIC DEVELOPMENT ADMINISTRATION REALIGN ITS DELIVERY SYSTEM TO COINCIDE WITH THE BOUNDARIES OF OUR FEDERAL CONGRESSIONAL DISTRICTS, SO AS TO PROVIDE A SYSTEM WHICH IS CONSISTENT WITH THE COMMON DELIVERY SYSTEM OF OTHER FEDERAL AGENCIES AS THEY WILL ALSO REALIGN.

THIS WOULD PROVIDE SMALL CITIES WITH UNIFORMITY AND ACCESSIBILITY IN SEEKING ECONOMIC OR TECHNICAL ASSISTANCE FROM EDA OR ANY OTHER FEDERAL AGENCY PROVIDING SIMILAR SERVICES. ACCESSIBILITY TO TECHNICAL ASSISTANCE IS OF THE UTMOST IMPORTANCE TO SMALL CITIES.

NUMBER 8.

WE RECOMMEND THAT THE ECONOMIC DEVELOPMENT ADMINISTRATION ACCEPT THE USE OF INDEPENDENT CERTIFIED AUDITS BY SMALL CITIES IN ESTABLISHING THEIR FISCAL RESPONSIBILITY FOR IMPLEMENTATION OF LOCAL ECONOMIC PROGRAMS.

SMALL CITIES SHOULD BE ALLOWED TO CONDUCT LOCAL AUDITS OF THEIR RESPECTIVE FEDERAL

PROGRAMS. THESE AUDITS WOULD BE DONE BY LOCAL INDEPENDENT CERTIFIED AUDITORS UTILIZING PROGRAM FUNDS. SMALL CITIES WOULD BE ABLE TO DOCUMENT THEIR FISCAL RESPONSIBILITY ONCE THE PROGRAMS ARE TERMINATED INSTEAD OF HAVING TO WAIT TWO OR THREE YEARS FOR A FEDERALLY CONTRACTED AUDIT.

NUMBER 9.

WE RECOMMEND FURTHER, THE ECONOMIC DEVELOPMENT ADMINISTRATION REVISE ITS APPLICATION PROCESS AND IMPLEMENT A SIMPLIFIED APPLICATION FOR USE BY SMALL CITIES AND RURAL COMMUNITIES OF LESS THAN 50,000 POPULATION, SIMILAR TO THE SAMPLE ATTACHED TO THIS TESTIMONY. SIMPLIFICATION OF THE GRANT APPLICATION WOULD ENABLE SMALL CITIES TO EFFECTIVELY DEAL WITH THE APPLICATION PROCESS IN-HOUSE INSTEAD OF UTILIZING COSTLY CONSULTANTS. ALSO, BY SIMPLIFYING THE APPLICATION, THE ELIGIBILITY FOR DETERMINATION OF GRANTS CAN BE PROMPLTY DETERMINED.

MR. CHAIRMAN, FOR THE RECORD WE HAVE ATTACHED A COPY OF A SIMPLIFIED MODEL APPLICATION DEVELOPED BY A TASK FORCE OF SMALL CITY MAYORS. THIS MODEL APPLICATION IS NOT ONLY DESIGNED TO MAXIMIZE SIMPLICITY, BUT ALSO IS DESIGNED TO PROVIDE PERTINENT DATA REQUIRED BY FEDERAL AGENCIES IN

CONDUCTING THEIR REVIEW OF GRANT APPLICATIONS. THE AMERICAN ASSOCIATION OF SMALL CITIES STRONGLY RECOMMENDS THAT THE ECONOMIC DEVELOPMENT ADMINISTRATION CONSIDER UTILIZING THIS FORM IN REVISING THEIR APPLICATION PROCESS.

MR. CHAIRMAN, THIS CONCLUDES MY TESTIMONY BEFORE YOU TODAY. I THANK YOU FOR THE OPPORTUNITY AND THE ATTENTION YOU HAVE GIVEN US TODAY. I WILL BE GLAD TO ANSWER ANY QUESTIONS WHICH THE MEMBERS OF THE SUBCOMMITTEE MAY HAVE.

APPLICATION FOR

FEDERAL ASSISTANCE

Submitted for Consideration by the

_____
Agency

Public Law_____

Entitled_____

Delivered this_____day of _____, _____

TO: _____
Agency or Regional Office

_____
Mailing Address

_____
City - State - Zip Code

_____
Telephone Number

BY: _____
City

_____
Mailing Address

_____
City - State - Zip Code

_____
Telephone Number

FUNDS REQUESTED:

Federal _____

State _____

Local _____

Total _____

DRAFT COPY SUBMITTED BY THE AMERICAN ASSOCIATION OF SMALL CITIES

MODEL FEDERAL APPLICATION
FOR SMALL CITIES AND RURAL COMMUNITIES

I. COMMUNITY NEEDS: In brief and concise terms describe the needs of the community relative to this project.

II. CITIZEN PARTICIPATION: Describe the process by which citizens of the community were involved in the selection of this project.

III. PROJECT DESIGN AND DESCRIPTION: Describe how this project will meet the needs as stated in Part I, and the methods of implementation.

IV. AREA DESCRIPTION: Briefly describe the socio-economic and physical characteristics of the area to be served by this project.

DRAFT COPY SUBMITTED BY AMERICAN ASSOCIATION OF SMALL CITIES

MODEL APPLICATION (Continued)

V. PLANNING SCHEDULE: List specific tasks, with dates of anticipated completion, leading to successful finish of this project within the contract period.

VI. PROJECT COMPLETION: Briefly describe the procedures by which this project will be evaluated and annual audit performed.

VII. OTHER PARTICIPATING ORGANIZATIONS: (Federal, State, or Local)

VIII. BUDGET OF FUNDS FOR THIS PROJECT:

A. Local funds $_____

B. State funds $_____

C. Federal funds $_____

Total Cost of Project $_____

(Attach Itemized Budget)

ASSURANCES

The applicant hereby assures and certifies that he will comply with the regulations, policies, guidelines, and requirements including OMB Circular No. A-95 and FMC's 74-4 and 74-7, as they relate to the application, acceptance and use of federal funds for this federally assisted project. Also, the applicant assures and certifies with respect to the grant that:

1. It possesses legal authority to apply for the grant; that a resolution, motion or similar action has been duly adopted or passed as an official act of the applicant's governing body, authorizing the filing of an application, including all understandings and assurances contained therein, and directing and authorizing the person identified as the official representative of the applicant to act in connection with the application and to provide such additional information as may be required.

2. It will comply with Title VI of the Civil Rights Act of 1964 (P.L. 88-352) and in accordance with Title VI of that Act, no person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under any program or activity for which the applicant receives federal financial assistance and will immediately take any measures necessary to effectuate this agreement.

3. It will comply with Title VI of the Civil Rights Act of 1964 (42 USC 2000d) prohibiting employment discrimination where (1) the primary purpose of a grant is to provide employment or (2) discriminatory employment practices will result in unequal treatment of persons who are or should be benefiting from the grant-aided activity.

4. It will comply with requirements of the provisions of the Uniform Relocation Assistance and Real Property Acquisitions Act of 1970 (P.L. 91-646) which provides for fair and equitable treatment of persons displaced as a result of federal and federally assisted programs.

5. It will comply with the provisions of the Hatch Act which limit the political activity of employees.

6. It will comply with the minimum wage and maximum hours provisions of the Federal Fair Labor Standards Act, as they apply to employees of state and local governments.

7. It will establish safeguards to prohibit employees from using their positions for a purpose that is, or gives the appearance of being, motivated by a desire for private gain for themselves or others, particularly those with whom they have family, business, or other ties.

8. It will give the grantor agency or the Comptroller General, through any authorized representative, the access to and the right to examine all records. books, papers, or documents related to the grant.

9. It will comply with all requirements imposed by the federal grantor agency concerning special requirements of law, program requirements, and other administrative requirements approved in accordance with FMC 74-7.

10. Federal funds requested for this project as stated in Item VIII $\$$_____.

(SEAL)

_____
Signature of Local Official

_____
Title

_____
Date

ATTEST:

Project Approved and Federal Funds Granted in the Amount of $\$$_____

_____
Federal Official's Signature

_____
Title

_____
Agency

_____
Date

STATEMENT OF JAMES B. HUNT, JR.

GOVERNOR OF NORTH CAROLINA

before the

Subcommittee on Regional and Community Development
Committee on Environment and Public Works

United States Senate

The Proposed National Public Works
and Economic Development Act of 1979

S 914

April 25, 1979

Introduction

Mr. Chairman, members of the Subcommittee, I am very pleased to submit testimony in support of the proposed National Public Works and Economic Development Act of 1979.

My testimony draws upon several closely related perspectives. I now serve as Chairman of the National Governors' Association's Working Group on EDA reauthorization. I also serve as Chairman of the National Governors' Association's Subcommittee on Small Cities and Rural Development and as Chairman of the Southern Growth Policies Board. I have previously served terms as States' Co-Chairman of both the Appalachian Regional Commission and the Coastal Plains Regional Commission. The experiences I have had in carrying out these responsibilities have been most helpful to me in understanding the challenges and opportunities of regional development and balanced national growth.

My testimony emphasizes the need to link two bills now before the subcommittee, S. 914 and S. 835, especially in the preparation and implementation of state investment strategies.

Linking National Policy and Federal Agency Programs

I strongly support increased emphasis upon regional development as the principal thrust of a national policy for balanced growth and ecocnomic development. This approach recognizes that there must be a sub-national component linked to our overall policy. The nature of the linkage is very important and I will have more to say about this later on.

Increased emphasis upon regional development also recognizes that all regions and both urban and rural communities must participate equitably in the economic growth mainstream of this country. Only if that happens, can our nation reach its full economic potential.

Within the policy framework of balanced national growth through regional development, S 914 establishes a priority concern. This is to provide support for the economic development of our distressed urban and rural communities. Meeting the economic development needs of distressed areas must be a national priority, but we must also be sure that the significant types of distress are eligible for support and that we can address these types of distress where and when they exist.

The distressed areas priority of S 914 should have both policy and program linkages to balanced national growth. It should not create an independent approach to sub-national economic development. Rather, support for distressed areas must be a central theme of regional development and be administratively coordinated at the program funding level.

For too many years now, most of us have lamented the fragmented, duplicative and often incomprehensible array of programs for strengthening the capacity of places to meet the needs of people. It has become uncommonly easy to point out instances where federal programs work at cross purposes with national policy, each other, or with state and local policies. The inevitable result is program impotence and frustrated people.

I believe, however, we finally are about to find our way out of this thicket of overlaps and under-impacts. The path to linking policy and programs can be found in Title III of S 835 introduced by Senator Randolph. That title is the "Regional Growth Policy Process Act." It creates a process for coordinating regional growth policy, established through a nationwide system of multi-state commissions, with federal agency programs. And it further provides for state development plans as the implementing arm of regional growth policy.

Mr. Chairman, this approach will work. We have had twelve years of experience in North Carolina with a similar approach under the Appalachian Regional Development Act and, to a somewhat lesser extent, under Title V of the Public Works and Economic Development Act of 1965. What has been missing, the linkage to federal agency programs, is now provided in Title III.

Eligibility of Distressed Areas

Turning back, now, to the National Public Works and Economic Development Act of 1979, I wish to address first the issue of eligibility. Because the central feature of this act is a national priority to assist distressed areas, the selection of areas eligible for economic development assistance is a crucial issue. However, I do not believe the selection of eligibility criteria need become a regional issue.

Eligibility criteria and their use should be based upon four principles. First, the criteria must be responsive to significant types of economic distress: long term decline, chronic under-development, and sudden and severe adjustment -- whether from rapid growth or loss of jobs. Second, eligibility criteria must be equitable in coverage of distressed areas, whether they are found in urban or rural settings, large or small cities or northern or southern regions. Third, eligibility criteria must be focused on distress only and not include areas that are essentially healthy and part of the economic mainstream. Fourth, the allocation of assistance to eligible areas must be supportive of balanced national growth by directing funds in a manner consistent with overall national policy.

The White House Conference on Balanced National Growth recognized

the different types of economic distress and called for the "equitable distribution of economic opportunities among all people and places and capitalizing on local and regional advantages for the collective betterment." With eligibility criteria based upon measures of unemployment, poverty, job loss, and per capita income, S 914 reflects a responsive, equitable, and focused approach to providing economic development assistance. This must be retained.

To assure that the use of eligibility criteria is supportive of balanced national growth, the allocation of assistance should follow the geographical distribution of eligible population. Although an administrative matter, it seems important to have the committee report reflect this position to assure that program management is consistent with national policy.

Coordinating Economic Development -- The Needed Linkage

I have earlier made the point that S 914 should be carried out within the policy framework of balanced national growth through regional development. I also pointed out that the "Regional Growth Policy Process" established in Title III of S 835 provides the basis for policy and program coordination. Now I want to elaborate on the nature of the linkage required between the two bills so that coordinated economic development can, in fact, take place at the national level and at the sub-national level.

S 835 provides, in Section 303, that each member state of a regional commission prepare a state development plan. The plan will establish state development goals, objectives and priorities and a method to coordinate development policies and programs under that plan with other federal and state programs. This provision is the first step toward implementing the concept of a single state development strategy.

The National Governors' Association has been urging federal agency adoption of this concept for nearly two years. A bill embodying details of the single state development strategy was introduced during the last session of Congress. The principal advantage of the concept is that it provides a mechanism to coordinate a wide range of federal and state development programs. It offers the best opportunity we have to pull together separate programs and different levels of government into a unified economic development effort that can have a substantial impact.

The state strategy, as set forth in S 835, becomes the real implementing factor in national balanced growth. Because it speaks to the use of funds at the program and project levels, the state strategy emerges as the common nationwide approach to meeting

sub-national and national objectives.

However, Section 303 stops short of calling for a single state strategy. It recognizes that other development plans and policies may exist in addition to the prescribed state development plan. This is a problem despite the mandated authority to coordinate. Each federal agency having significant community and economic development activities within a state could request a separate state plan. In addition to continuing the present burdensome paperwork requirements, a series of separate state plans would make coordination much more difficult, especially in terms of obtaining agency agreement on which is the lead plan for development.

Title I of S 914 authorizes the Secretary of Commerce to make grants to states for an economic development planning program that "produce(s) comprehensive strategies: for use as a guide to public decisionmaking" and "... that provide(s) the basis for the coordination of Federal, State, and local actions and investments..." The Findings and Purpose section of S 914 further states:

> (4) the proliferation of Federal economic development planning requirements places unnecessary burdens on State and local governments and organizations of such governments and hinders efforts to formulate and implement comprehensive development strategies.

I could not agree more with that statement. But I have just pointed out two bills that independently require similar comprehensive plans. Add to that the proposed state investment strategies of HUD and the Department of Agriculture, the Environmental Protection Agency, and who knows what else. I think we should avoid coming back ten years from now and asking to be saved from federal comprehensive planning requirements instead of just federal planning requirements.

To do that, we need to move directly toward the concept of a single state strategy by tying other legislation into Title III of S 835. Specific language to that effect is contained in an attachment to my testimony. The thrust of that language is to allow states to use Title I and Title II funds of S 914 for preparing a state development plan under Title III of S 835. And it further stipulates that when a state elects to do this, funds authorized under Title II and Title III of S 914 that are spent in the state should be consistent with the state development plan.

Mr. Chairman, adoption of this language would be a big step foward in establishing a linkage mechanism to coordinate economic development policies and programs. The language would provide full coordination of EDA and the regional commissions within the Department of Commerce and establish a precedent for linking other agency development plans to a single state strategy. That puts primary reponsibility for decision making closest to the point of project impact.

Another aspect of the linkage concern is the cooperation in program administration between state and district staff and federal agency staff. Contrary to what many may believe, each staff is not running an independent program. They all are carrying out essentially the same type of program. The fact that state and district personnel might substitute for federal agency staff in technical assistance, project packaging and preliminary application approval has been legally overlooked. This fact becomes even more important with EDA expansion, especially for the function of private sector loans.

Title I of S 941 provides a great deal of money to build state and district capacity. But capacity building should not be limited to more and better plans or even better state and district decision-making. The truly effective result of capacity building is to share the project administration with federal agency staff, thereby reducing the need for so many additional federal personnel.

I have suggested language to modify S 914 accordingly and this also is contained in an attachment to my statement. The thrust of this language is to build a stronger, collaborative linkage between EDA staff and federal and district staff. Specifically, it would encourage the use of state and district agencies as the full structure for the delivery system under Title III of S 914. This type of partnership effort not only is cost efficient for the taxpayer, it is also cost effective in terms of results.

Other Concerns

The National Governors' Association's Working Group on EDA reauthorization has made several additional recommendations that we believe will improve the workability of S 914. These are as follows:

- Under Title I, we recommend that the state approve the Overall Economic Development Programs of local governments and substate districts, Approval of district OEDP's is in the current law.

- Under Title II, we recommend:

  (1) that the authorization level for state economic development grants remain at $75 million with no change in the proposed FY 1980 appropriation of $20 million

  (2) the $20 million in state economic develop-

ment grants should be distributed by formula based upon the state's share of EDA eligible population

(3) appropriations for state economic development grants above $20 million should be equally divided between formula allocations and discretionary grants

(4) capitalization grants should be available for a wide range of state and local development finance agency activity, not just revolving loan programs

- Under Title III, we recommend that the Secretary's provision of assistance to private firms be subject to the standard A-95 process of review and comment.

- Under Title IV, we recommend that the authorization level for research and demonstration program funds be increased from $4 million to $15 million, with a corresponding increase in appropriations. The funds would come from savings in administration through an expanded state and district staff role in EDA programs.

Mr. Chairman, I very much appreciate this opportunity to present testimony in support of the proposed National Public Works and Economic Development Act of 1979. This Act would improve considerably the administration of our economic development programs and help us move toward achieving balanced national growth. When linked more closely with S 835, as I have recommended, we also will create a federal-state-local partnership through regional development that can assure greater program responsiveness, effectiveness, and beneficial project impact.

Mr. Chairman, I wish at this time to submit my testimony for the record along with several attachments. Thank you.

Attachment I

Suggested Amendments to S 914

Governor James B. Hunt, Jr.

Section 2

Add a new sub-paragraph (5) in Section 2(b) to read:

"Encouraging the preparation of coordinated overall economic development plans in cooperation with multi-state and sub-state regional development agencies."

Title I

Add two sentences at the end of the last sentence in Section 102(a) to read:

"In fulfilling the purpose of this section, states may elect to utilize the planning process established by the 'Regional Growth Policy Process Act' under Title III of S 835. When a state elects that option, the expenditure of federal funds by the Secretary in said state under Title II and Title III of this Act shall be subject to the provisions of the 'Regional Growth Policy Process Act.'"

Title II

Change the period in the sentence in Section 203(e) to a comma and add the following:

"...or, if a state has elected under Section 102(a) to utilize the planning process establised by the Regional Growth Policy Process Act, the funding of projects and programs to implement the State development plan prepared pursuant to that Act."

46-633 O - 79 -- 31

Title III

Add a sentence to Section 306(a) to read:

"State and local development finance agencies shall be encouraged to provide the Secretary with technical analysis concerning local credit availability."

Add two sentences to Section 306(b) to read:

"The Secretary shall encourage the chief elected official of areas eligible to receive assistance to involve, to the maximum extent practicable, state and local development finance institutions in the review of applications for assistance and in the development of recommendations to the Secretary concerning appropriate forms of financial assistance for individual projects."

"The Secretary shall encourage the involvement of state and local development finance insititutions in the provision of credit under this chapter through regulations to be established by the Secretary."

Add a sentence to Section 306(f) to read:

"When state and local agencies participate in the provision of credit under this chapter, and when the repayment of federal financial assistance is deferred pending repayment of other loans made in connection with such project, the Secretary shall encourage such agencies to participate in the monitoring of such projects subsequent to the receipt of financial assistance."

Note: The above are my suggestions for specific language to implement the recomendations of the NGA Working Group.

ELLA GRASSO
GOVERNOR



STATE OF CONNECTICUT
EXECUTIVE CHAMBERS
HARTFORD

April 30, 1979

The Honorable Quentin Burdick
United States Senator
Chairman
Subcommittee on Regional and Economic
Development
Committee on Environment and Public Works
4204 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Burdick:

My schedule unfortunately did not permit me to testify before your subcommittee on S.912 (National Public Works and Economic Development) but I did want to provide you with my comments on the proposed legislation.

I basically support the thrust of the legislation but as my attached statement attests, I do have two basic concerns:

1. There is an absence of all but the most cursory recognition of state development elans and related investment strategies, policies and prioritizations. Apart from brief reference in Title I, Section 102, 104, and 203(e), there is virtually no significance attached to state-prepared development plans in terms of their primary importance in determining the focus, or appropriateness, of investments by both state and federal levels within the boundaries of the state. I strongly urge the subcommittee to carefully review this proposal.

2. Section 203(e), which provides funds to states for "projects and programs, except planning, as set forth in approved state strategies", replaces, in a manner of speaking, the present 304 program, which represents the only source of federal economic development funding available to states which is flexible as to its uses. In previous drafts of the National Public Works and Economic Development Act of 1979, the 304 program was replaced by a new Title V, which allocated 30% of authorized funds to the states by formula, the remainder to be disbursed to states at the discretion of the Secretary.

Section 203(e) of S.914 has a greatly reduced proposed level of authorization ($40,000,000 vs. $100,000,000) and eliminates formula allocations totally. We believe that a minimum of 50% of the funds should be allocated by formula to provide states the continued flexibility they presently enjoy, and of which we, in Connecticut, have made great usage. We would gladly accede to demands that funds be expanded in accordance with the "state strategies" to be negotiated between the state and the Economic Development Administration in line with the comments in 1, above.

I hope these comments are helpful as you continue your deliberations on this important legislation which affect the long-term economic investments in our country.

With best wishes,

Cordially,

Ella Grasso

ELLA GRASSO
Governor

Testimony of Ella Grasso, Governor, State of Connecticut
for the Committee on Environment and Public Works'
Subcommittee on Regional and Community Development
on the
National Public Works and Economic Development Act (S.912)

We, in the State of Connecticut, have followed with great interest the gradual process of development and revision of the proposed National Public Works and Economic Development Act of 1979 concerning the reauthorization and reorganization of the Economic Development Administration, and are extremely grateful to have had the opportunity, as part of the National Governor's Association, and chair of its Subcommittee on Economic Development, to have participated in sessions devoted to presenting the states' views on this extremely important legislation. Having recently completed a governmental reorganization in our state, as well as being in the process of implementing our new Urban Strategy and Conservation and Development Policies Plan, we are well aware of the importance of assuring that a reorganizational and refocusing effort is carefully scrutinized and that all potential ramifications are known, understood, and accepted. Recognizing the significance of the proposed legislation to economic development activities in the various states makes such careful appraisal doubly worthwhile.

Having spent many hours in the careful analysis of the various drafts presented to date, we are pleased to note that many of the comments raised by ourselves and other states have been incorporated in the administration bill sent to Congress. Clearly, a great deal of time and effort has been involved in preparing and refining the proposal until it has assumed the final form being considered presently. While we may not agree with all changes made in initial drafts, we concede the validity of the arguments brought to bear in their

favor and can accept the revisions as in the best interests of all parties. Unfortunately, there remain two major areas in which we find we must strongly disagree with the theme and emphasis of the administration proposal.

Our first area of concern involves the absence of all but the most cursory recognition of state development plans and related investment strategies, policies and prioritizations. Apart from brief reference in Sections 102 and 105(b), there is virtually no significance attached to state-prepared development plans in terms of their primary importance in determining the focus, or appropriateness, of investments by both the state and federal levels within the boundaries of the state. This is of grave concern to ourselves and such other states as have developed such plans. We in Connecticut have, as noted earlier, invested great time, energy, and most important, thought, in the preparation of our urban strategy and Conservation and Development Policies Plan, and are in the process of implementing both.

It goes without saying that the best efforts of any state to direct its own developmental destiny can be for nought if the federal government honors such plans more in the violation than the adherance. One need only point to the sewer and highway funding efforts of past years to verify that the federal government can often play the determining role in describing the long-term nature of development over large areas of any state. Without some more forceful statement of the overriding priority of state plans in this legislation, and by the other federal agencies whose acts it affects, the best efforts of those states that have prepared plans are threatened, and the rationale for the preparation of such plans in other states is essentially nil.

As Chairperson of the National Governors' Association's Urban Policy Subcommittee, I have attached a series of concept papers developed by the Subcommittee which speak to this very point. The thrust of these concept papers developed by seven Governors suggest that without a strong state role in federal program initiatives in a period of fiscal restraint we -- state and federal governments -- will find that we have a decreased capability to coordinate our assistance to areas of greatest need.

We urge that Title I and II be modified such that the Agency would recognize and honor state priorities in qualified areas when making its investment decisions. We cannot see how such an agreement could do other than strengthen an effective federal/state interrelationship toward achieving mutually acceptable and desirable economic development in an era of fiscal constraints.

Our second area of concern involves the proposed Section 203(e), and the elimination of the new Title V which appeared in previous drafts. We wish to point out, as we have in past discussions, that the present 304 funding program, which is to be continued as Section 203(e), represents the only source of federal economic development funding presently available to states which is flexible as to the uses to which it can be put. The proposed Bill authorizes a funding level of only $40,000,000 (vs. $100,000,000 in previous drafts) and retains the total amount to be distributed at the discretion of the Secretary, ostensibly to those states demonstrating the ability to carry out "comprehensive economic development strategies". While this might actually benefit states, such as ours, where such plans are extant and implemented, we feel it would be far more logical to allocate all or, at the

very least, a significant majority of the funds to the states on a reasonable formula basis, bearing in mind our previous statement that such funds often represent the only means available flexible enough to allow for the funding of worthwhile projects. We would gladly accede to demands that the funds would have to be expended in accordance with the state plan, or such other disbursement strategy as is acceptable to both the state and EDA, and that projects which are inconsistent with said plans or strategy would have to be defended to EDA on a case-by-case basis. We are convinced that this approach is both feasible and desirable.

While not of as great a concern as the previous two recommendations, we would also suggest that the proposed legislation specifically note that existing state developmental financing entities, such as our Connecticut Development Authority, would be the vehicles for both Title II revolving loan and Title III financing programs wherever possible, in order to strengthen and capitalize on the experience of such entities while reducing administrative demands on EDA.

Attachment

National Governors' Association

Julian M. Carroll
Governor of Kentucky
Chairman

Stephen B. Farber
Director

May 2, 1979

The Honorable Quentin Burdick
Chairman
Subcommittee on Regional and
Community Development
Committee on Environment and
Public Works
U. S. Senate
4204 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

Please find enclosed my statement in support of the Hart amendment to S. 971, relating to the provision of assistance to communities affected by the rapid development of energy resources. I am sorry that I was unable to personally introduce this during your hearings last week, and will appreciate your introduction of this statement into the record on my behalf.

I greatly appreciate your interest in the Hart-Randolph Bill last year and your support of the Hart amendment to S. 971. As you know, I stand ready to do all I can to assist in the passage of this important legislation.

Sincerely,

Governor Richard D. Lamm
Chairman, Committee on Natural
Resources and Environmental
Management

Enclosure

TESTIMONY OF

GOVERNOR RICHARD D. LAMM

BEFORE THE

SUBCOMMITTEE ON REGIONAL
AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON ENVIRONMENT
AND PUBLIC WORKS

U. S. SENATE

Mr. Chairman, members of the Committee, it is a pleasure to testify today in support of a bill which will soon be introduced to provide assistance to states and communities faced with adverse "boomtown" conditions caused by rapid energy development.

As I know you are aware, the Governors have followed with great interest the development of an assistance program for energy producing areas. We consider this issue to be of paramount importance in insuring that our national energy goals are met in an equitable manner and without an undue burden to those communities strained by rapidly increasing energy production. The Administration's support of this assistance program marks the culmination of nearly two years of close, cooperative efforts between the Administration and the Governors in the development of such a program. Through the NGA Subcommittee on Impact Assistance which I chaired, 15 Governors from eastern, western and coastal states worked diligently over the course of a year to develop a consensus state view on whatshould constitute a sound energy impact assistance program. Given the budgetary constraints facing the President, we are especially gratified that he has recognized the importance of the energy impact problem in his budget request.

Nature of the Problem

While there are regional differences in the nature of the adverse impacts faced by communities undergoing rapid energy development, the basic patterns are the same. The speed of growth and the uncertainty accompanying that growth make it very difficult for communities to effectively anticipate the adverse impacts. As a result, public facilities and services fall far short of the need generated by the sudden influx of new residents. Where they exist, water and sewer systems are overtaxed; schools are overcrowded; health care facilities cannot meet the demand; and roads and

transportation facilities are unable to handle the new levels of use. In addition, commercial facilities and professional services are usually lacking - the uncertainty of energy development discourages economic diversification. Housing shortages frequently occur, driving the price of the existing housing stock to very high levels. Trailer camps spring up; available land is rapidly exhausted. Beyond these facility and service shortages, rapid energy development brings with it social disruption. Quiet rural communities are transformed into brawling boomtowns, complete with increases in child absue, divorce, alcoholism, prostitution, and crime. As the quality of life in these boomtowns deteriorates, employee turnover and absenteeism increase, causing a decline in productivity in the energy industry itself. This declining productivity contributes to rising energy prices, and has ominous implications for America's long-term energy independence. Provision of timely impact assistance could make a major contribution in restoring stability and productivity.

Perhaps some case examples will bring these problems into clearer focus:

In Craig, Colorado, population increased approximately 50 percent between the end of 1973 and the end of 1976, due to coal development and power plant construction. In this period, crimes against persons increased by 900 percent, alcoholism cases increased by 623 percent, family disturbances by 352 percent, child abuse/neglect cases by 130 percent, and child behavior problems (excluding schools) by 1000 percent.

In Mingo County, West Virginia, it has been almost impossible to acquire land to accommodate coal mining families whose homes were ruined in floods two full years ago, much less those coming into the area for new coal mining employment. The land not on steep slopes or on flood plains is largely held by land owners unwilling to sell their land for housing, preferring to hold it for speculation or resource development. Although the state has ample funds available to acquire land for new housing, it has only been able to buy a small part of the land it needs because private mining and land holding companies are unwilling to sell (the state has no power of eminent

domain permitting land assembly for such purposes). In addition, most existing communities lack water and sewer facilities thereby raising the cost of housing site development.

In Rock Springs, Wyoming, a very large coal-fired power plant was put under construction in 1972, with one month's prior notice to local government. Simultaneously, the existing trona (natural soda ash) mining industry was expanding both its mining and processing operations. With population growth rates of over 15-20 percent per year, Rock Springs and nearby Green River faced inadequate law enforcement services, overcrowded schools, inability to go beyond constitutional bonding limits to build schools at a rate fast enough to accommodate enrollment increases, and hesitance on the part of the voters to bond themselves to accommodate a boom of uncertain duration. In addition, the doctor-patient ratio went from 1/1100 to 1/3700 within two years because of the difficulty of attracting additional health services professionals to this boom community. At the height of Rock Springs' growth, 30 percent of the population indicated that they were obtaining health services from Salt Lake City, 200 miles away.

Magnitude of Need

Estimates as to the magnitude of the financial need facing communities suffering from energy development's adverse impacts range from as high as $80 billion dollars, identified in a Department of Energy study, to the very conservative $3.5 billion estimate of the Office of Management and Budget. OMB's estimate, by the way, did not include the costs of housing and transportation needs, two of the most expensive problems facing impacted communities. The Committee on Natural Resources and Environmental management's Coal Subcommittee, under the leadership of Governor Jay Rockefeller, is currently surveying a number of major coal and uranium producing states to ascertain their best estimates as to their financial need. In addition, we are examining other recent studies of impact needs. While the NGA survey is not yet complete, preliminary

indications are that the nation's impact needs are staggering. The NGA's partial identification of the impact needs existing or anticipated through 1981 in only six states is over $1.3 billion.

As of this date, partial information has been compiled on the existing and anticipated needs of four states: Kentucky, Ohio, Virginia, and West Virginia. The data collected to date is partial information reflecting the needs of these states for housing site development, water and wastewater treatment, and schools. Information on present needs was collected only for those areas of the state which have recently experienced an annual growth rate of 8% or greater. Needs not directly attributable to energy development and the needs of areas growing less rapidly were not considered. The existing needs identified in this survey then, represent only the critical needs of these states' most rapidly growing energy boom towns.

The existing needs identified to date in these four states total more than $879 million. This figure includes more than $404 million for the development of land for miners' housing, but does not include the cost of housing construction. Also included in the $879 million figure is the cost of providing an acceptable level of sewer and water service to miners' famlies, and the financial burden placed on local school systems as the result of energy development. Many other costs, such as government administration, transportation, and health care, were not considered. If data were available on these costs, the total figure for present needs would multiply significantly.

The NGA survey is also designed to develop information on community development needs projected to occur between 1978 and 1981 as the result of energy development. Information developed to date for the four states indicates that they must provide more than $423 million in the next two years for the development

of housing sites, water and sewage treatment, and education, in order to serve nearly 70,000 new residents as the direct result of expanding energy production. Because the costs of developing water distribution and sewage collection lines depends upon site specific characteristics, those costs were not estimated. The water and wastewater development costs estimated in this survey are thus understated, by a factor of at least three. The $423 million figure also excludes many very expensive costs which must be borne by these states as the result of energy development, such as transportation and health care.

The NGA survey relies upon state data and existing plans describing the socio-economic conditions of energy producing areas. The study is being conducted from the "bottom up" by asking the states to report existing conditions,rather than working from the top down through the construction of theoretical models. Projections of need are based upon published forecasts of expansions in mining capacity, and upon conservative cost factors for the provision of minimum levels of public service.

It is important to note that the NGA survey is not yet complete. Though the work on this survey is continuing, the data presented here encompasses only four states. No information is as yet available on a number of states known to be experiencing severe energy related impacts, including Colorado, Illinois, North Dakota, Montana, Ohio, Pennsylvania, Texas, Utah and Wyoming. Colorado is currently developing a major study of its energy impact problem and when our information is available, I will provide it to the Subcommittee. As the NGA survey is completed, this will also be provided to the Subcommittee.

The NGA findings to date are summarized below:

Existing Needs Attributable to Energy Development

Housing	$404,419,611
Water Treatment	119,857,032
Wastewater Treatment (Ky, Oh, Va, WV)	313,074,355
Schools (Ky, Oh, Va only)	41,970,731
Total	$879,321,729

Projected Needs, 1978-1981

Energy Related Population Increase		69,955
Housing:		
Single Family	12,872 units	$203,917,000
Multi-Family	1,808 units	7,755,470
Mobile Home	4,653 units	38,103,880
Water Treatment		30,930,495
Wastewater Treatment		24,780,415
Schools		117,543,660
Total Existing and Projected Needs		$1,302,352,649

This figure must be considered a very limited and conservative estimate of impact needs in a small number of states. Other studies have pointed to the impacts experienced in other states. A recent study of the Old West Regional Commission, for example, spotlighted the fiscal impacts of energy development in nine Wyoming counties. The estimated capital cost facing these nine counties through 1985 amounts to a staggering $337 million. This is more than three times the available borrowing capacity of these jurisdictions. And this figure is a very conservative estimate of the capital needs of this area. It assumes only the minimum acceptable level of public services, and does not include the cost of housing for incoming miners. Nor does it includ the needs of three additional energy impacted counties, preliminarily estimated at well over $100 million.

Over the same period, only about $125 million is expected to be available through the state's coal impact tax and the return of federal mineral leasing royalties. Though this money comes from production in the nine county area, it must also fund the needs felt in the three counties not included in the Wyoming study. These three additional counties produce virtually no coal, but are bedroom counties for the Dekcer Mine in Montana. They derive virtually no revenue from coal production, but are suffering severe impacts. On the balance, there is a net capital shortfall of well over $300 million in the twelve county area.

Clearly, it is neither equitable nor feasible to expect impacted communities to bear the entire burden of response to America's call for increased energy production.

The Governors' Proposal and its Relation to the Hart Amendment to S. 971

To deal with these impact problems, Governors have urged the creation of a flexible state-administered planning and assistance program designed to pass through 98 percent of the funds to impacted local communities. The key to avoiding and mitigating these impacts lies in planning in advance of the "boom" and in providing the needed funds to construct public facilities and provide public services. Accordingly, we strongly support the Hart amendment as we supported last year's Hart-Randolph bill.

The Hart amendment empowers Governors to designate areas within their states which are or will be "energy-impacted." To insure that there be no second guessing or direct designation of impact areas by any federal agency, except in those cases where a Governor may elect not to participate in the program, Section 1104(b) of the Hart amendment to S. 971 should be modified to allow Secretarial designation only where a state elects not to participate in the program.

46-633 O - 79 -- 32

After the designation of impact areas, the Governor would indicate an appropriate planning unit which would develop an impact area plan. These plans will form the backbone of the Governor's priority setting and should be developed cooperatively between the Governor, local elected officials, and representatives of appropriate federal agencies, as well as the owner or operator of the resource development project.

We strongly support a formula allocation of funds for the development of state revolving funds. The states have agreed that the allocation should be based upon the absolute and relative increases in energy-related employment in the state's designated areas, measured against a recent base year selected by the Governor as representative of his state. In addition, the allocation formula should involve an incentive for the states to encourage impact cost internalization by energy producers. The relative weights of these allocation factors are extremely important and should be specified in the legislation. Sec. 1105 of the Hart amendment to S. 971 needs to be amended to reflect these suggestions.

We strongly support the option contained in the Hart amendment which allows the Governor to choose either the Economic Development Administration or the appropriate regional commission to administer the program. Given the limited amount of funds available relative to the magnitude of the need, it is particularly important to have the flexibility and the integration with other state planning and development efforts which utilization of the regional commissions would offer. However, the Hart amendment should be further amended to give the authority to write regulations for the program and to handle the special assistance authorized in Sec. 1110 consistent with their established procedures. In this latter regard, Commissions would be empowered to make the decisions regarding grants and contract with EDA to handle loans and loan guarantees where grants are not warranted.

It is our intention that the primary focus of this program will be to leverage the limited funds to the greatest extent possible in delivering funds to impacted communities from the state revolving fund. The state should be given full flexibility to determine interest rates and conditions for grants and loans in order to insure that the program would be tailored to the needs of particular communities within the state. There are certain conditions under which a loan program cannot be effectively used in impact mitigation, and the Governor should have the authority to make grants if in his judgment the loan approach would not be effective. For example, in situations where the jurisdiction facing the impacts cannot tax the energy development and make those tax revenues available for impact assistance, grants appear to be the only reasonable mechanism for funding the mitigation response. Similarly, where there are consittutional or legal restrictions to borrowing, an inadequate debt capacity, the inability to reasonably amortize repayment, or other local considerations, grants would be not only expedient but fair. In Section 1109(c), the Hart amendment insures the needed flexibility and we strongly support this provision.

Governors strongly support the strong role in project priority setting that the Hart amendment provides us. It is important, moreover, to avoid unnecessarily complex or burdensome requirements related to planning, the development of state investment strategies, or the conduct of environmental impact assessments. As an example, it should not be necessary to provide a description of the incorporation of local plans into the state investment strategy as is required in Sec. 1108(a)(1). Nor should it be necessary to provide EIS information as part of the state investment strategy. An EIS determination for individual projects selected for funding should be sufficient. In addition, approval of state mitigation strategies should be a process review and should not include judgments by the Secretary regarding the acceptability of state efforts in "the development of institutions and carrying out

local programs" (Sec. 1108(b)). In order to insure that assistance is made available to impacted communities on a timely basis, there should be a statutory time limit of 30 days for the comments of the Secretaries of Energy and Interior on each state's mitigation strategy.

In closing, I would like to reemphasize our strong support of this important program. We believe that it will provide an important tool for meeting the tremendous public facility and service needs that will be generated in meeting our national energy goals. We deeply appreciate the valiant efforts of this Committee in working for passage of this legislation last year. We stand ready to help in any way we can to win passage this year.

Thank you for the opportunity of appearing before you today.

TELEPHONE: 293-7330
(AREA CODE 202)



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TED L. WILSON
Mayor of Salt Lake City
Executive Director:
JOHN J. GUNTHER

April 24, 1979

The Honorable Jennings Randolph
U. S. Senate
Washington, D. C. 20510

Dear Senator Randolph:

The U. S. Conference of Mayors had scheduled Mayor Robert Beaudin of Duluth, Minnesota to testify before the Senate Public Works Committee tomorrow. Unfortunately, Mayor Beaudin will be unable to come to Washington tomorrow and we must regretfully submit our testimony for the record.

The U. S. Conference of Mayors has always enjoyed the opportunity not only to share our views but also to exchange ideas with your committee.

Again, we regret that we will be unable to testify tomorrow.

Sincerely,

John J. Gunther
Executive Director

Enclosure

The U. S. Conference of Mayors represents those cities in the United States with populations over 30,000, and we are happy to have the opportunity to share the views of the Conference of Mayors on the reauthorization of EDA.

Economic Development is a major function of local government. Although this appears to be a simple statement of fact, it wasn't too long ago when city governments were just providing police and fire protection, picking up the trash, and issuing permits. As city living has become more complex, city government has had to respond -- respond to the problems of high unemployment, the out migration of population to the suburbs, the sudden loss of a major industry.

The programs of EDA have been very important in building an economic development capacity in city government and in providing needed public works. Apart from direct funding to local government, loans to businesses in our cities have helped provide a balanced public and private economy. The Conference of Mayors would like to commend Secretary Kreps and Assistant Secretary Hall on the excellent and difficult work of delivering these resources in the communities where they are most needed.

The Conference of Mayors urges the Congress to use the process of reauthorizing EDA to establish a well-funded and

comprehensive economic development program. It is essential to include capacity building and planning so that our nation's communities can manage economic development funds as wisely and efficiently as possible. It is also essential to include investment funds for public works and business financing. We hope that the legislation will show increased emphasis on local programs geared to job retention and expansion. In addition, it is important to have stand-by authority in the legislation for a Public Works program that could be activated in a recession.

The eligibility criteria proposed by the administration covers those areas of the country that are now distressed or have experienced a sudden adverse economic shift. The USCM feels that a great deal of time was spent by EDA in developing those criteria to meet the economic development needs of our country, but it is almost impossible to determine those areas that will become eligible as a result of these criteria. We understand that EDA is developing a list of eligible areas using the criteria in the proposed legislation. Translating the statistics into real geographical areas will give us all a better understanding of where these areas are located in our country.

The Conference of Mayors urges the Congress to include as eligible communities with pockets of distress where the community itself is otherwise ineligible for EDA assistance. It would be important for such a city to spend federal funds in the area of distress to benefit the low and moderate income persons residing there, and city government must also demonstrate that its local resources are being committed to deal with the problems in

distressed areas.

The Conference of Mayors is pleased that the legislation proposed by the Administration calls for all areas to be eligible for EDA planning and technical assistance funds. Planning and capacity building can be one of the most cost-effective tools, allowing cities to better understand their own problems and needs and to develop ways of addressing those needs. It is just as important for growth areas to plan for their needs as it is for highly distressed areas to plan for revitalization.

Under the current legislation, EDA "302" planning funds have been used in 48 cities, from Buffalo to Denver, from Portland to New Orleans. Each of these 48 cities have diverse growth and development problems. These funds give cities the capacity to collect data and develop a strategy for eventual implementation of key projects. The use of planning funds allows the city to prepare a framework in which to allocate public works and other federal project funds, as well as leverage private funds which might have remained untapped without this capacity.

Our cities have made use of the Title IX program in the existing legislation and we are pleased to see that all activities eligible in the existing legislation are contained in the proposed legislation. Cities have used the existing program for everything from revolving loan funds to direct capital investments and we would like to continue with a program that allows for flexible use of funds. The Conference of Mayors believes that EDA has incorporated all the eligible activities of Title IX into the new legislation and that we can work within the framework proposed by EDA.

Public works projects are an important part of economic development. Typically, public-private cooperation happens when the city government provides needed infrastructure and public facilities in the area of a major office building or industrial development. The city provides capital improvements and services for residents and workers and the private development provides revenues for the city coffers. Both provide short and long term jobs.

A few years ago, local Public Works funds were essential to communities suffering high unemployment. While many cities had difficulty with the first round of local Public Works, LPW Round II gave cities the opportunity to develop their own priority projects.

While the relative success or failure of both Rounds of the Local Public Works program may be a subject of debate, one fact is indisputable: they came too late. Because we essentially had to start from scratch in drafting the outlines and elements of the Local Public Works program, because Congress under the best of all circumstances requires time for its authorizations and appropriations committees to properly deliberate, the Local Public Works programs came too late. The worst elements of the recession were far behind us by the time the first Local Public Works dollar was obligated. It is not difficult to see that substantial economic hardship for cities and for families could have been avoided had a Local Public Works program been on hand to meet an economy in need at the point of greatest need.

The Congress has to consider very carefully the expenditure

of federal dollars, but we ought to have the legislative authority on the books should the economic situation take a turn for the worse.

That is why the Conference of Mayors supports the creation of a permanent anti-recession Public Works program triggered by national and local unemployment rates to provide for funding of deferred capital projects. The substantial multiplier effects of local Public Works projects convince us that when the economy is encountering trouble, as indicated by unemployment statistics, we should be ready to go with a program directed at this problem. The Congress should proceed to enact a permanent Public Works program within the Economic Development Administration targeted as closely as possible to genuine needs, which will be available in a timely and effective fashion when economic down-turns occur.

The proposed legislation contains authority for programs which provide assistance to distressed communities and planning and technical assistance to all communities. While these remarks have been focused on those programs which are of direct benefit to cities, I would like to point out that EDA programs provide assistance to cities in an indirect way by making loans available to businesses within our cities. This assistance made it possible for those businesses to remain in the city and to provide needed revenues so that cities can deliver traditional services to its businesses and its residents.

The U. S. Conference of Mayors would like to continue to work with this committee and the Congress in the process of reauthorizing EDA this year. Thank you, Mr. Chairman for allowing me to present the view of the U. S. Conference of Mayors here today. I will be happy to answer any questions.

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