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Economic Development Administration: Reauthorization and Funding Issues in the 111th Congress

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Summary

In the coming months, the 111th Congress will continue to consider legislation that would reauthorize and amend the Public Works and Economic Development Act (PWEDA) of 1965, P.L. 89-136 (79 Stat. 552, 42 U.S.C. § 3121). The PWEDA—whose statutory authority expired on September 30, 2008—authorized the creation of the Department of Commerce's Economic Development Administration (EDA). EDA's primary focus is to help regions experiencing long-term economic distress or sudden economic dislocation attract private-sector capital and create higher-skill, higher-wage jobs through investments in public infrastructure, the provision of technical assistance and research, and the development and implementation of comprehensive economic development strategies.

Among the policy issues Congress may address when considering reauthorization legislation are the following questions: should Congress de-federalize Revolving Loan Funds (RLFs) and give grantees greater flexibility in the management and conversion of RLF assets; should the current federal-local project cost share thresholds be adjusted to make additional EDA assistance more accessible to the most distressed areas; and should Congress provide a more flexible set of options governing the liquidation of federal interest in EDA-financed projects?

On January 20, 2010, the Senate Committee on Environment and Public Works reported the Economic Development Revitalization Act of 2009, S. 2778. Sponsored by Senators Boxer and Inhofe, S. 2778 would reauthorize the existing programs administered by EDA through 2013; introduce outmigration as an additional indicator of economic distress; amend the provisions governing the percentage of EDA funding that may be used to cover a project's cost; specifically encourage the support of business incubators; direct EDA to seek improvements in the management of its Revolving Loan Funds; and amend the conditions, requirements, and methods used to terminate the federal interest in EDA-financed projects.

Congress also will consider legislation appropriating funds for the agency and its programs for FY2011. As part of those deliberations, Congress will decide whether to fund Administration proposals intended to support the creation of Regional Innovation Clusters (RICs) and business incubators. The Obama Administration's FY2011 budget requests $246 million for EDA programs, including $75 million for RICs. The Administration is also requesting less funding for the public works program ($68 million) than was appropriated in FY2010 and slightly more funding ($40 million) for salaries and expenses.

In addition, as it did with the passage of the American Recovery and Reinvestment Act, P.L. 111-5 (123 Stat. 115), Congress may consider appropriating additional funding for EDA programs as part of supplemental jobs and public works legislation (H.R. 4740) intended to address current levels of high unemployment caused by the economic recession that began in December 2007. This report will discuss EDA reauthorization and appropriations-related issues and will be updated as events warrant.

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Introduction

In the coming months, the 111th Congress will continue to consider legislation to reauthorize and amend the Public Works and Economic Development Act (PWEDA) of 1965, P.L. 89-136 (79 Stat. 552, 42 U.S.C. § 3121). The PWEDA, whose statutory authority expired at the end of September 2008, authorized the creation of the Department of Commerce's Economic Development Administration (EDA). EDA's primary focus is to help regions that are experiencing long-term economic distress or sudden economic dislocation attract private-sector capital and create higher-skill, higher-wage jobs through investments in public infrastructure, the provision of technical assistance and research, and the development and implementation of comprehensive economic development strategies.

EDA funds are competitively awarded to states and local governments, colleges and universities, Economic Development Districts,[1] multi-jurisdictional planning organizations established by the states, and nonprofit organizations created under applicable state statutes. EDA assistance programs include the following grants.

- Public Works grants are used to finance infrastructure-related activities that support job creation, including, but not limited to, water and sewer facilities, industrial parks and business centers, broadband facilities, port and rail improvements, and business incubator facilities.
- Economic Adjustment Assistance (EAA) grants are used to fund strategic planning and implementation activities, including the same activities eligible under Public Works grants. Assistance may also be used to capitalize Revolving Loan Funds (RLFs) targeted to assist businesses in areas experiencing sudden economic dislocation.

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[1] An Economic Development District (EDD) is defined in 13 C.F.R. § 300.3 as follows: "Economic Development District or District or EDD means any Region in the United States designated by EDA as an Economic Development District under § 304.1 of this chapter (or such regulation as was previously in effect before the effective date of this section) and also includes any economic development district designated as such under section 403 of PWEDA, as in effect on February 10, 1999." EDDs are designated in 13 C.F.R. § 304.1 as follows: "Designation of Economic Development Districts: Regional eligibility. Upon the request of a District Organization (as defined in §304.2), EDA may designate a Region as an Economic Development District if such Region: (a) Contains at least one (1) geographic area that is subject to the economic distress criteria set forth in §301.3(a)(1) of this chapter and is identified in an approved CEDS [Comprehensive Economic Development Strategy]; (b) Is of sufficient size or population and contains sufficient resources to foster economic development on a scale involving more than a single geographic area subject to the economic distress criteria set forth in §301.3(a)(1) of this chapter; (c) Has an EDA-approved CEDS that (1) Meets the requirements under §303.7 of this chapter; (2) Contains a specific program for intra-District cooperation, self-help, and public investment; and (3) Is approved by each affected State and by the Assistant Secretary; (d) Obtains commitments from at least a majority of the counties or other areas within the proposed District, as determined by EDA, to support the economic development activities of the District; and (e) Obtains the concurrence with the designation request from the State (or States) in which the proposed District will be wholly or partially located." Finally, economic distress is defined in 13 C.F.R. § 301.3(a)(1) as follows: "(i) An unemployment rate that is, for the most recent twenty-four (24) month period for which data are available, at least one (1) percentage point greater than the national average unemployment rate; (ii) Per-capita income that is, for the most recent period for which data are available, eighty (80) percent or less of the national average per-capita income; or (iii) A Special Need, as determined by EDA."

- Planning grants are used for direct and indirect administrative expenses of Economic Development Districts (EDDs) and Indian tribes or other organizations charged with formulating and implementing Comprehensive Economic Development Strategies (CEDS) in EDA-designated distressed areas.
- Technical Assistance grant recipients provide management and technical services, including conducting feasibility studies for projects located in distressed areas.
- Research and Evaluation grants support research into the practices, principles, and innovations that guide the effective formulation and implementation of economic development strategies.
- Trade Adjustment Assistance provides grants and technical assistance to firms and communities adversely affected by international trade, to help recipients develop and implement recovery strategies.
- Climate Change Mitigation grants are used to support projects that promote energy efficiency and curb greenhouse emissions in economically distressed communities.

The agency has six regional offices whose primary responsibility is to review requests for EDA funding by state, provide technical assistance, and administer EDA grants. See **Appendix A** for a list of regional offices and **Appendix B** for EDA grant funding by state**.**

Program Reauthorization Issues

As Congress debates legislation to reauthorize and appropriate funding for the programs of EDA, it may consider questions such as the following:

- Should grantees administering Revolving Loan Funds (RLFs) be granted greater flexibility in the management and conversion of RLF assets for other EDA-eligible activities?
- Should Congress modify the current federal-local cost share thresholds based on factors intended to measure relative need in order to provide additional assistance to the most distressed areas?
- Should Congress change the current requirements governing the transfer of federal interest in EDA-financed construction projects in an effort to encourage local flexibility in the use of EDA funds?

RLF Management Accountability and Asset Conversion

A grantee awarded an EAA grant may, as part of its Comprehensive Economic Development Strategy (CEDS), use the assistance to capitalize an RLF. An RLF, which requires a matching contribution from the grantee, allows the grantee to award low-interest loans to businesses that can demonstrate that they are unable to obtain bank financing. Loan repayments by qualified businesses to an RLF are used to cover administrative costs of the program and to recapitalize the RLF in order to make additional loans. Local administrators of RLFs are required to operate the funds in perpetuity as long as there is a federal interest in assets of the RLF. However, RLFs may be terminated for cause by EDA. According to EDA, in FY2009, 458 recipient organizations administered 578 RLFs with total capital assets of $852 million.[2] This amount is approximately three times the size of the EDA total appropriation for FY2010 and represents a significant source of funding for the recipient organizations.

EDA's RLF program has not been without controversy, including issues of inadequate monitoring and reporting. In March 2007, the Department of Commerce's Office of Inspector General (OIG) released an audit report that was critical of EDA's administration of RLFs. The report noted the following:

> EDA (1) failed to ensure efficient capital utilization by RLF grantees, (2) did not ensure grantee compliance with critical reporting requirements, (3) does not have an adequate tracking and oversight system, and (4) does not utilize single audit reports to improve grantee monitoring.[3]

The report also noted that much of the RLF information available to EDA that would allow it to administer the program effectively was incomplete or inaccurate. The OIG recommended that EDA take the following actions:

- develop a plan of action to address the problems in the program;
- require EDA regional staff to provide written evaluations of appropriate capital utilization percentages for all RLFs with a capital base exceeding $4 million;
- develop policies and procedures that will promote a uniform approach to sequestering excess cash;
- consistently collect and evaluate grantee financial reports; and
- develop and implement a database and reporting requirements that will allow EDA to monitor RLF programs effectively.

On January 27, 2010, EDA published in the *Federal Register* final rules intended to address the unresolved issues discussed in the OIG report.[4] The revised regulations noted that EDA had developed a Web-based reporting system allowing grantees the option of uploading or manually entering data into the system. The agency also:

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[2] U.S. Department of Commerce, Economic Development Administration, "About the RLF Program: How it Works," http://www.eda.gov/PDF/RLFWorks.pdf.

[3] U.S. Department of Commerce, Office of Inspector General, Economic Development Administration: Aggressive EDA Leadership and Oversight Needed to Correct Persistent Problems in RLF Program, Audit Report No. OA-18200-7-0001, Washington, DC, March 2007, http://www.oig.doc.gov/oig/reports/2007/EDA-OA-18200-03-2007.pdf.

[4] U.S. Department of Commerce, Economic Development Administration, "Revisions of EDA Regulations, Final Rule," 75 *Federal Register* 4259, January 27, 2010.

- revised its semi-annual reporting forms to allow it to monitor program performance more closely, including identifying RLFs with high loan default rates;
- identified specific violations of policies that would cause EDA to suspend or terminate an RLF program, in an effort to encourage grantees to comply with program reporting requirements; and
- required each grantee administering an RLF to hire an independent third party to conduct a compliance and loan quality review of its RLF every three years.

Although EDA has moved to address many of the management concerns identified in the OIG report, other issues may require congressional action. Of particular concern to local administrators of RLF programs is the permanent federal nature of RLFs, which they find too restrictive. Local administrators would like the flexibility of using RLFs to cover the costs of other EDA-eligible activities. This view was articulated during May 21, 2009 testimony before the Senate Committee on Environment and Public Works by a representative of the National Association of Development Organizations (NADO),[5] who complained that the permanent federal nature of RLFs inhibits local flexibility and requires RLF grantees to comply with "costly reporting and audit requirements."[6] The NADO representative recommended that the committee, when amending the PWEDA, consider provisions that would allow EDA-capitalized RLFs to relinquish their federal identity after initial funds have been loaned, repaid, and fully revolved. The economic development analyst argued that this would reduce EDA's management burden and allow local grantees greater flexibility in the use of funds than federal regulations currently allow.

It might be argued, however, that recent regulatory changes allow grantees more flexibility. For example, current regulations allow RLF administrators to use repayments to RLFs to cover the cost of administrative expenses, including a compliance audit that must be conducted every three years by a qualified independent third party. In addition, according to EDA, the new streamlined Web-based reporting system eliminates duplication and will "reduce the average paperwork burden per RLF [semi-annual] report on the RLF recipient from 12 hours to 2.9 hours."[7]

Relative Needs Thresholds and Federal-Local Cost Share Requirements

Currently, the statute governing EDA assistance limits the federal contribution for an EDA-financed project to no more than 50% of a project's total cost when the project is located in an area whose unemployment rate for the latest 24-month period is at least one percentage point

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5 NADO is a national organization representing the interest of the nation's 525 regional development organizations. It provides advocacy, training, research, and education to and on behalf of its members; see http://www.nado.org/index.htm.

6 U.S. Congress, Senate Committee on Environment and Public Works, *National Association of Development Organizations*, written statement of Leanne Mazer, Executive Director of the Tri-County Council for Western Maryland, 111th Cong., 1st sess., May 9, 2009, p. 3, http://www.nado.org/legaffair/mazereda.pdf.

7 U.S. Department of Commerce, Economic Development Administration, "Revisions to the EDA Regulations," 73 *Federal Register* 62861, October 22, 2008.

above the national average or whose per-capita income for the latest 24-month period is not more than 80% of the national average.

Table 1. EDA Maximum Federal Match (Investment Rates) Based on Relative Needs of a Region as Measured by Criteria Established under 13 C.F.R. § 301.4

Projects located in regions in which	Maximum allowable federal investment rates (% of a project's cost)
(A) The 24-month unemployment rate is at least 225% of the national average; or	80
(B) The per-capita income is not more than 50% of the national average	80
(C) The 24-month unemployment rate is at least 200% of the national average; or	70
(D) The per-capita income is not more than 60% of the national average	70
(E) The 24-month unemployment rate is at least 175% of the national average; or	60
(F) The per-capita income is not more than 65% of the national average	60
(G) The 24-month unemployment rate is at least 1 percentage point greater than the national average; or	50
(H) The per-capita income is not more than 80% of the national average	50

Source: 13 C.F.R. § 301.4.

A community that successfully competes for EDA funds, having met the minimum unemployment and per-capita income thresholds for eligibility, is required to provide 50% of the cost of a project from non-EDA funds. For a community whose unemployment rate exceeds or whose per-capita income falls below the minimum eligibility thresholds for EDA assistance, EDA may provide additional (supplemental) grants to reduce the community's 50% cost-share obligation, resulting in an increase (of up to 30%) in the percentage of a project's cost covered by EDA. As directed by the statute, EDA has developed and established in regulations[8] a set of thresholds intended to measure an applicant's relative need for the purpose of identifying the maximum amount of a project's cost EDA will cover by awarding a supplemental grant. EDA's cost-share thresholds are based on the extent to which an applicant's unemployment rate or per-capita income exceeds the national average (see **Table 1**).

It might be argued that the thresholds for receiving a higher federal cost share are arbitrary and artificially high, with the result that few areas qualify for the maximum percentage of EDA supplemental assistance. For example, of the approximately 750 areas that received grants from EDA in FY2008, fewer than 100 counties were eligible for the 80% federal cost share. A provision included in S. 2778 would establish in statute lower eligibility thresholds for EDA

[8] 13 C.F.R. § 301.4.

supplemental grants. The new thresholds would be a return to those in place before 2006, when EDA issued final rules governing assistance programs.

In addition, for Indian tribes, presidentially declared disaster areas, and areas where the state or local governments have exhausted their taxing and borrowing powers, EDA may assume the total cost of a project (see **Table 2**).

Table 2. Federal Matching Fund Requirements for Special Projects

Projects	Maximum allowable investment rates (percentage)
Projects for Indian tribes	100
For presidentially declared disasters, Economic Adjustment Assistance sought under a supplemental appropriation within 18 months of the date of the disaster declaration	100
Projects of states or local governments that EDA has determined have exhausted their taxing and borrowing powers	100
Public works and economic adjustment assistance projects that have received performance awards	100
Projects located in an EDD that receive planning performance awards	100

Source: 13 C.F.R. § 301.4.

Federal Interest in Real Property Assets

Under current law, EDA retains an interest in property financed and constructed with EDA Public Works and Economic Adjustment Assistance funds for a period of at least 20 years after the initial date the EDA grant was awarded.[9] EDA may retain its interest in the property for the useful life of the property, which may extend beyond the 20-year minimum period.[10] If an EDA-financed property is to be sold prior to the expiration of its useful life, the recipient of EDA funds must repay EDA the full federal interest in the project, based on the current fair market value.[11]

Recipients of Public Works grants have been critical of the provisions governing the repayment of the federal interest in EDA-financed projects before the expiration of their useful life. In an effort to enhance local flexibility, EDA supports:

- changes in the law that would reduce the time horizon before EDA-financed assets could be sold; and

[9] 42 U.S.C. § 3211(d)(2).

[10] 13 C.F.R. § 314.10.

[11] If EDA assistance accounted for 50% of the cost of the project and the current fair market value of the property is $1 million when sold, the federal share of the proceeds from the sale is $500,000.

- changes in the method used to calculate the repayment of EDA interest upon resale.[12]

EDA Reauthorization

S. 2778, the Economic Development Revitalization Act of 2009, would reauthorize and amend the Public Works and Economic Development Act (PWEDA) of 1965. A related House bill may be introduced in the coming months. S. 2778, discussed below, would address issues identified in the previous section of this report, including those relating to eligibility factors, federal cost shares, the use of RLFs, and the conversion of the federal interest in EDA projects.

S. 2778, the Economic Development Revitalization Act of 2009

S. 2778 was introduced on November 16, 2009, by Senator Boxer, Chair of the Senate Committee on Environment and Public Works, with the support of the committee's ranking Member. The bill includes language related to RLFs from S. 430, the Economic Development Administration Reauthorization Act of 2009, introduced by Senator Inhofe on February 12, 2009. On November 18, 2009, the Senate committee approved S. 2778 by voice vote, adopting an amendment on behalf of Senator Warner to "in-source"—or promote bringing information technology jobs from other countries to the United States. The bill, as amended, was reported on January 20, 2010 (S.Rept. 111-114), and placed on the Senate calendar.

In general, the bill proposes some significant modifications to existing provisions of the PWEDA while including technical changes and minor modifications to other provisions. Most of the substantive changes to existing law proposed by the bill are intended to increase local flexibility in the use of EDA assistance. In addition to recognizing business incubators as a key strategy for developing high-skill, high-wage jobs and fostering regional cooperation through the planning process, the bill would:

- add outmigration and job losses in specific industry sectors (manufacturing and information technology) to the definition of economic distress;
- adjust the relative need measures used to calculate the federal-local cost share of EDA-financed projects;
- allow greater flexibility in the conversion and management of EAA financed RLFs;
- modify the rules governing the transfer or buyout of the federal interest in property financed with EDA Public Works or Economic Adjustment Assistance; and

[12] U.S. Department of Commerce, Economic Development Administration, *Top 5 Reasons Economic Development Administration (EDA) Should be Reauthorized for 5 Years*, http://www.eda.gov/PDF/EDAReauthorizationCollateralPiece.pdf.

- authorize $500 million in funding for each of the next five fiscal years for EDA activities, including an annual minimum allocation for planning assistance grants.

Economic Distress: Unemployment, Per-Capita Income, and Outmigration

Areas that have a two-year unemployment rate that is at least one percentage point above the national average, or a per-capita income that is not more than 80% of the national average, might qualify to apply for a competitive EDA grant. Because of these broad parameters for eligibility, many counties may meet or exceed EDA's economic distress thresholds.[13] An estimated 90% of counties in the United States qualify for EDA's economic distress designation based on the per-capita income criterion alone, whereas an estimated one-third of counties qualify based on their unemployment rate. The majority of counties qualify as economically distressed based on "Special Needs."[14] According to a study by Rutgers University,

> [c]hanges in the criteria for designating areas eligible for EDA assistance have increased the number of economically distressed areas over time [....] Unemployment adds little to the designation of economic distress; nearly 90 percent of qualifying counties qualify on the basis of income alone. Locations that qualify on the basis of unemployment are more likely to be urban areas; rural areas qualify on the basis of income.[15]

For illustrative purposes, **Figure 1** presents all U.S. counties; those that are shaded had unemployment rates at least one percentage point above the national average from January to December 2009 (the EDA standard is 24 months). Higher unemployment was concentrated in the industrial Midwest, Southeast, and West; unemployment was lower in the Dakotas, Nebraska, and Kansas. An estimated one-third of counties were eligible for this designation.

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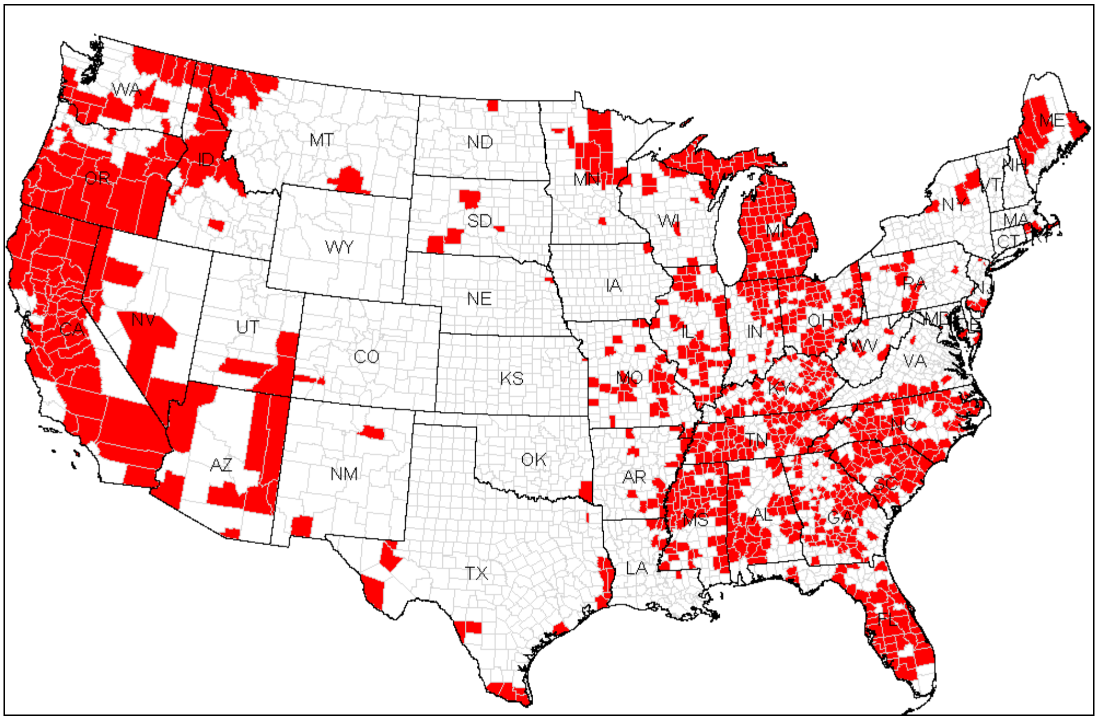
[13] Meeting the economic distress requirements is not sufficient to receive an EDA grant. Areas that qualify as economically distressed must then apply for a competitive EDA grant. If they are successful, they may receive a minimum 50% federal cost share for the EDA project. As economic distress increases—measured by per-capita income and unemployment—areas may receive a 60%, 70%, or 80% federal cost share. This discussion specifically refers to the areas that qualify for the minimum 50% in federal cost share.

[14] This category may include the closure of a military base, a natural disaster, or sudden and severe mass layoffs. See 13 C.F.R. § 303.3.

[15] Robert Lake, Robin Leichenko, and Amy Glasmeier, et al., *EDA and U.S. Economic Distress: 1965-2000*, Rutgers University, New Brunswick, NJ, July 2004, p. 13, http://www.eda.gov/PDF/2004JulyEDAandU.S.EconomicDistressReport.pdf.

Figure 1. Counties (Shaded) with Unemployment Rates at Least One Percentage Point Above the National Average, January-December 2009

Higher unemployment was concentrated in the industrial Midwest, Southeast, and West; unemployment was lower in the Dakotas, Nebraska, and Kansas.



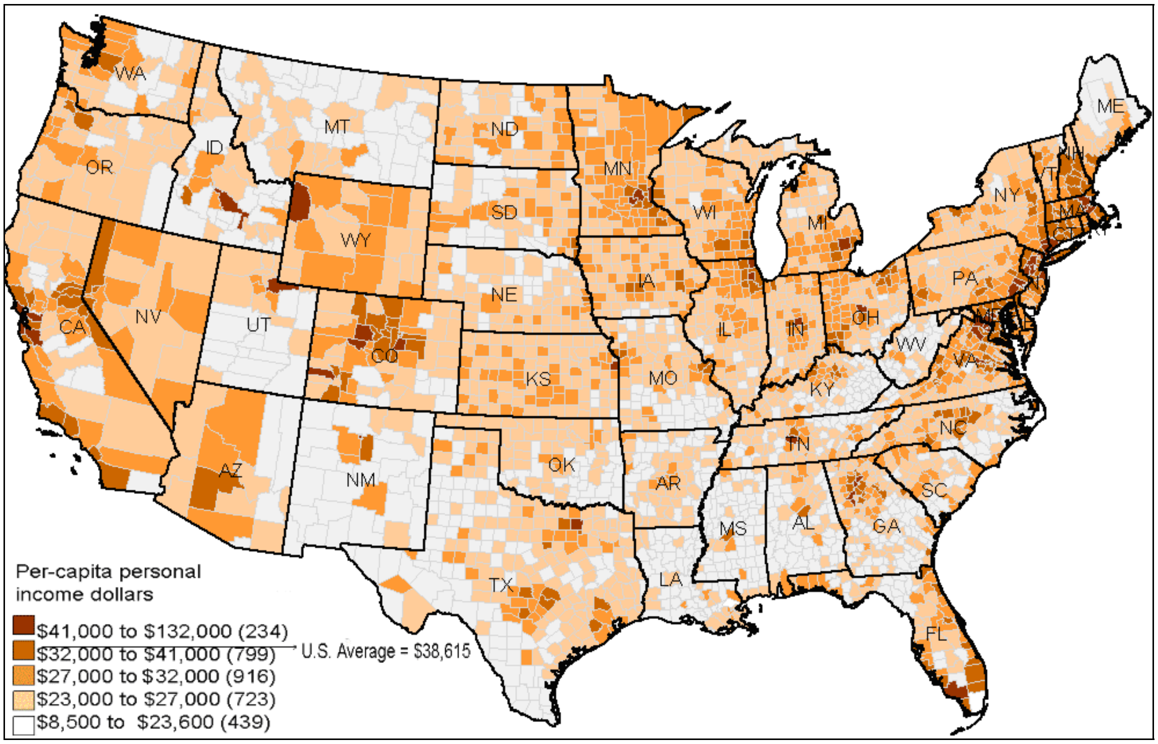
Source: Bureau of Labor Statistics, http://www.bls.gov/lau/maps/twmcort.gif.

Note: Counties at least one percentage point above the national unemployment average for a 24-month period are considered economically distressed. About one-third of counties were eligible for this designation in FY2009.

For illustrative purposes, **Figure 2** presents per-capita income county data for 2008. The figure shows that per-capita income is lower in Mississippi, West Virginia, South Carolina, and Kentucky; it is higher in Connecticut, New Jersey, New York, and Massachusetts.

Figure 2. Per-Capita Income by County, 2008

Per-capita income is lower in Mississippi, West Virginia, South Carolina, and Kentucky; it is higher in Connecticut, New Jersey, New York, and Massachusetts.



Source: U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.gov/regional/REMDmap/REMDMap.aspx.

Note: Counties that have a per-capita income not more than 80% of the national average are considered economically distressed. An estimated 90% of counties are eligible for this designation.

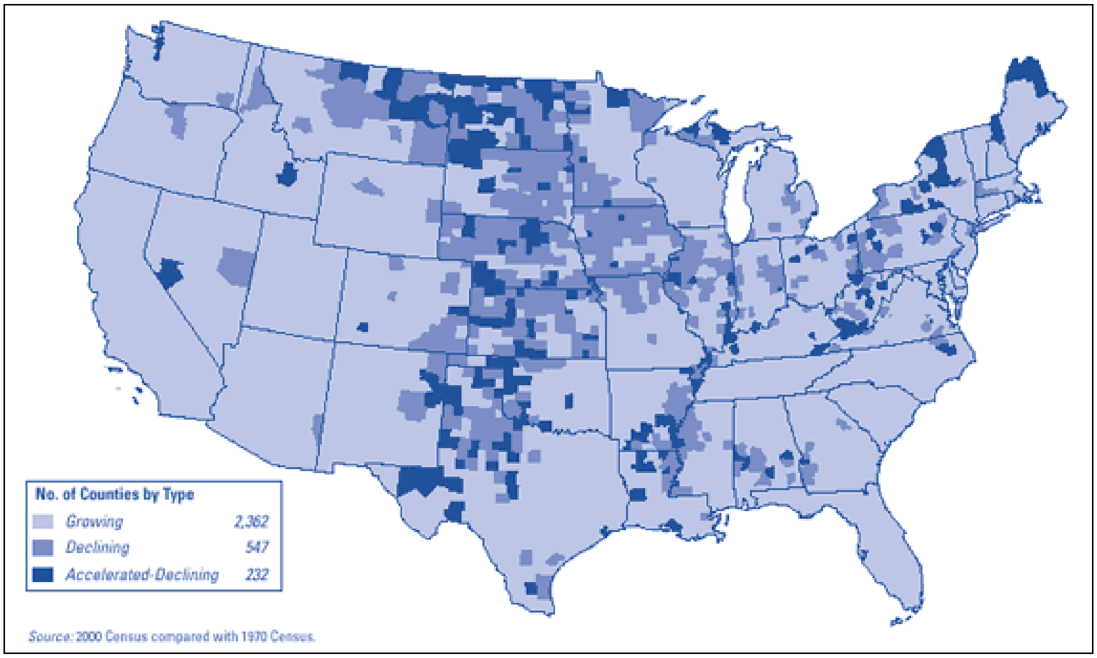
In addition to the three categories outlined above (unemployment, per-capita income, and a "Special Need"), S. 2778 would include outmigration as a factor where the federal share of funding for an EDA project may be up to 80%:

> Additional Criteria- The Secretary may establish eligibility criteria in addition to the criteria described in this paragraph to address areas impacted by severe outmigration, sudden and severe economic dislocations, and other economic circumstances, on the condition that a Federal share established for such eligibility criteria shall not exceed 80 percent [....] Section 503(a) of the Public Works and Economic Development Act of 1965 (42 U.S.C. 3193(a)) is amended by inserting "outmigration" after "regional unemployment." (S. 2778)

The legislation would authorize the use of Technical Assistance and Research and Evaluation grants to prevent or alleviate outmigration and authorize the Secretary of Commerce to consult with any persons who might assist in addressing the problems of area and regional outmigration. As shown in **Figure 3**, counties affected by outmigration might benefit from this additional designation. Many of these counties are located in the Midwest, according to 2000 Census data.

Figure 3. Geographic Distribution of Outmigration

Outmigration is concentrated in the Dakotas, Nebraska, Kansas, Oklahoma, and Northern Texas.



Source: Federal Deposit Insurance Corporation (FDIC) based on the 2000 Census with 1970 Census data, http://www.fdic.gov/bank/analytical/banking/2005jan/images/02_fig01.gif.

An amendment introduced by Senator Boxer on behalf of Senator Warner would also authorize Technical Assistance and Economic Adjustment Assistance grants for communities affected by the loss of information technology, manufacturing, natural-resource based, agricultural, or service sector jobs for reinvesting in and diversifying their economies.

The inclusion of additional factors for "economic distress" follows a pattern that has allowed more areas in the country to become eligible for EDA assistance over the years, even as funding for the agency has declined. When EDA was first authorized in the mid-1960s, only counties that had an income not more than 40% of the national income level were eligible. By 1998, this figure had increased to not more than 80% of the national income level (or an unemployment rate at least one percentage point higher than the 24-month unemployment rate for the nation, or a "special need"). According to the previously cited Rutgers University study,

> [t]he number of EDA's designated areas grew in response to both political and economic realities over the life of the agency, and particularly in the early 1970s. Areas of short-term unemployment were added between 1965 and 1971. New legislative mandates also expanded the types of counties that could be assisted. In 1970, 983 areas qualified for EDA assistance; by 1973, that number had nearly doubled to 1,818 areas [....] By 1998, approximately 90 percent of the counties in each year studied qualified.[16]

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[16] Robert Lake, Robin Leichenko, and Amy Glasmeier, et al., *EDA and U.S. Economic Distress: 1965-2000*, Rutgers University, New Brunswick, NJ, July 2004, p. 13, http://www.eda.gov/PDF/2004JulyEDAandU.S.EconomicDistressReport.pdf.

Adjustment of Federal Contribution to EDA Projects

S. 2778 would adjust the federal-local cost share (matching) requirements for EDA projects based on unemployment and per-capita income levels.[17] The bill would restore the federal cost share rates in place before regulations promulgated in 2006. As established in program regulations, the federal share of a project's cost can run from 50% to 80%, based on where the area's long-term unemployment rate or per-capita income falls relative to the respective national average.[18] As **Table 3** shows, areas with 24-month unemployment rates 200% higher than the national average or those whose per-capita incomes are 50% of the national average would be subject to the 80% federal and 20% local matching fund requirement. Conversely, projects in areas with unemployment rates at least one percentage point above the national average or whose per-capita incomes are not more than 80% of the national average would continue to be (as at present) subject to a 50% federal – 50% local match requirement.

S. 2778 would, for the first time, include EDA cost-share rates in law (rather than in regulation) and would lower some of the unemployment and per-capita income thresholds currently in place. The bill would establish six federal cost-share levels. Four of the levels would determine federal-local cost shares based on long-term unemployment or per-capita income data. A fifth provision would change current statutory language governing Indian tribes. S. 2778 would allow EDA to cover between 75% to 100% of the total cost of the project, whereas currently, EDA finances 100% of the project cost undertaken by Indian tribes. Also, for a federally declared disaster area, EDA could increase the federal share of a project's cost up to 100%.

Table 3. EDA Federal Cost Shares in S. 2778

24-Month average unemployment rate at least	Per-capita income does not exceed	Federal cost share
1percentage point above national average	80% of national average	50%
150% of national average	70% of national average	60%
175% of national average	60% of national average	70%
200% of national average	50% of national average	80%

Source: Section 6 of S. 2778.

Note: The bill includes a provision to allow, but not mandate, that EDA develop criteria that would permit EDA funds to be used to cover 80% of the federal cost share of a project in an area affected by severe outmigration, sudden and severe economic dislocation, or other economic circumstances.

[17] U.S. Department of Commerce, Economic Development Administration, "13 CRR Chapter III, Economic Development Administration Reauthorization Act of 2004 Implementation, Regulatory Revision; Final Rule," 71 *Federal Register* 56657, September 27, 2006.

[18] 13 C.F.R. § 301.4.

Administration and Conversion of EDA Revolving Loan Funds

S. 2778 would grant administrators of RLFs flexibility to convert RLFs to other uses. The bill identifies the methods and requirements for conversions, and the conditions under which they could occur. Specifically, the recipient/administrator of an RLF would be allowed to seek EDA's permission to convert RLF assistance to other uses on the following grounds:

- the recipient has determined that RLF assistance is no longer needed to achieve the goals outlined in its comprehensive economic development strategy; or
- given the current economic development needs of the recipient, it could make better use of the RLF if it were allowed to carry out other activities eligible for EDA assistance.

S. 2778 would allow RLF conversions by one of two means. The administrator of an RLF would be allowed to sell the assets of the RLF to a third party and use the proceeds to carry out other PWEDA-eligible activities, or could retain repayments to the RLF in accordance with a strategic reuse plan rather than relend them.

The changes were sought as a means of helping underfunded EDDs, one of the primary administrators of RLFs, access additional resources to address budget shortfalls. In addition, the bill would allow EDA to set aside 2% of the amounts made available for RLFs to develop and maintain an automated tracking and monitoring system and would direct EDA to solicit input from the public, RLF grantees, national experts, and federal employees, to improve the administration of RLFs. This provision is consistent with recommendations included in the 2007 OIG report.[19]

RLF Brightfield Demonstration Projects

S. 2778 includes a provision authorizing EDA to fund Brightfield Demonstration projects through FY2014. This program was previously authorized by the EDA Reauthorization Act of 2004 (P.L. 108-373, 118 Stat. 1756), but funds were never appropriated. Under S. 2778, EDA would allocate funds to projects that would use abandoned industrial facilities to house new ventures for creating jobs through the advancement of solar technologies.

Termination of Federal Interest in EDA-Financed Construction Projects

S. 2778 would shorten the period during which EDA could hold a reversionary interest in property financed with EDA assistance from the current minimum 20 years to 10 years from the

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[19] U.S. Department of Commerce, Office of Inspector General, Economic Development Administration: Aggressive EDA Leadership and Oversight Needed to Correct Persistent Problems in RLF Program, Audit Report No. OA-18200-7-0001, Washington, DC, March 2007, pp. 14-15, http://www.oig.doc.gov/oig/reports/2007/EDA-OA-18200-03-2007.pdf.

date the grant was awarded.[20] The bill would require EDA—before providing assistance for a construction project—to establish a time frame for the achievement of the project's economic development objectives. During that period, EDA would hold an undivided equitable reversionary interest in the property. The bill outlines the methods and conditions under which federal interest in a property could be terminated.

One provision of the bill would allow EDA to terminate the federal reversionary interest in a project if the recipient met its obligations and objectives within the time frame established when the project was first funded. Alternatively, a recipient could initiate a request that EDA terminate reversionary interest in a property.

- If this request is submitted during the 10-year period starting with date the assistance was initially provided, the recipient must repay EDA 100% of the fair market value of the prorated federal share of the project.[21]
- If the request is submitted after the initial 10-year period, a recipient must pay EDA the fair market value of the federal share of the project as if that value had been amortized over a period established for completion of the project, which might be more than 10 years, based on straight-line depreciation of the project over its estimated useful life.[22] Under this provision, the cost to the recipient of buying out the federal interest in the property would be discounted based on the remaining useful life of the EDA-assisted property.

S. 2778 would establish 10 years as the minimum period an EDA-assisted property must be held without the EDA recipient being required to repay 100% of the federal interest in the property.

Support for Economic Development Districts

To support the planning and economic development activities of Economic Development Districts, S. 2778 would establish a minimum appropriation of $27 million for EDD activities for each fiscal year through FY2014. This amount would increase if EDA received appropriations equal to or greater than $280 million. In addition, S. 2778 would strengthen the role of EDDs.

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[20] Reversionary rights allow EDA to protect its interest in property acquired or improved with EDA funds. Currently, EDA's interest in the property is dissolved upon completion of the term of 20 years or the useful life of the property, which may extend beyond the minimum 20 years established by EDA.

[21] For example, if the initial project cost of a project was $100,000 and EDA's share of that cost was 50%, then EDA's prorated share would be $50,000. Five years later, if the fair market value of the property assisted by EDA was $10,000, EDA's share would be $5,000. This is the amount EDA would be due should the recipient wish to terminate EDA's interest in the property.

[22] For example, if the initial project cost of a project was $100,000 and EDA's share of that cost was 50%, then EDA's prorated share would be $50,000. Twelve years later, if the fair market value of the property assisted by EDA was $150,000. EDA's share would be $75,000. Under the proposed statute, this amount would be discounted based on the straight-line depreciation schedule (SL) calculated over the useful life (UL) of the property as established by EDA. For example, if the EDA-established useful life of the property is 20 years, the straight-line depreciation would be calculated as follows: SL = FMV/UL. EDA's share of the SL would be $3,750 for each of the 20 years of the UL of the property. Under this example, because the recipient is seeking to terminate the federal interest in the 12th year, the repayment (REPAY) to EDA would be calculated as follows: REPAY = FMV - (SL * 12). The repayment to EDA would be $30,000: REPAY = $75,000 – (3,750 * 12).

The bill specifies that EDDs are to be involved in the full range of EDA-funded activities, including coordination of activities related to Comprehensive Economic Development Strategies, and implementation activities involving states and federal agencies, as well as research and planning activities.

Greater Regional Cooperation

The legislation seeks to encourage EDA to work in cooperation with regional commissions. It would amend Section 3(8) of the PWEDA by recognizing three new regional commissions in addition to the four that are currently established. Newly proposed are the Southeast Crescent Regional Commission, Northern Border Regional Commission, and Southwest Border Regional Commission. Already existing are the Appalachian Regional Commission (ARC), Delta Regional Authority, Denali Commission, and Northern Great Plains Regional Authority. In addition, the bill would amend Section 101 of the PWEDA to include multi-state regional organizations, along with university centers and economic development districts, in the technical assistance process.

Supporters of including regional commissions in EDA legislation might argue that it could promote greater regional and federal cooperation. Detractors, however, might indicate that overlap exists between the work of regional commissions and EDA, which could lead to duplication and dilution of EDA's programs.

Multiyear Authorization for EDA

The bill would establish a multiyear funding level of appropriations for EDA. A total of $500 million would be authorized for each fiscal year through FY2014.

EDA Appropriations

Background

Appropriations for EDA have fluctuated since the agency's inception as part of President Lyndon B. Johnson's War on Poverty. **Table 4** summarizes changes in funding for EDA from FY1966 to FY2010, reflecting EDA's legislative history and amendments to the PWEDA. The table presents current dollars and shows that EDA funding increased from $332 million in FY1966 to $855 million in FY1976 and $6.6 billion in FY1977. Funding decreased from $526 million in FY1978 to $477 million in FY1981. In FY1982, EDA's budget was cut in half. From FY1982 until FY1998, the agency survived on annual congressional appropriations, since no major EDA reauthorization was enacted until FY1998. EDA saw its largest funding increases in FY1976 and FY1977, as a result of efforts in Congress to spur job growth through countercyclical job creation programs.

In some years, EDA's supplemental funding has been important, particularly in the area of disaster relief, which received $500 million in FY2008, nearly double the amount of funding for its non-disaster economic development programs. In addition, in FY2009 EDA received a one-time supplemental appropriation of $150 million under the American Recovery and Reinvestment Act of 2009, the economic stimulus legislation passed by the 111th Congress (P.L. 111-5, 123 Stat. 115).

Table 4. History of Appropriations for EDA by Fiscal Year

Fiscal Year	Current Dollars
1966	$332,425,000
1967	290,000,000
1968	345,225,000
1969	274,740,000
1970	272,121,000
1971	253,315,000
1972	284,470,000
1973	325,731,000
1974	240,600,000
1975	394,850,000
1976	855,378,000
1977	6,592,625,000
1978	526,073,000
1979	549,029,000
1980	553,350,000
1981	476,500,000
1982	223,500,000
1983	295,250,000
1984	293,720,000
1985	259,110,000
1986	215,786,000
1987	216,539,000
1988	206,770,000
1989	206,770,000
1990	216,836,000
1991	236,015,000
1992	331,982,000
1993	332,823,000
1994	550,142,000
1995	461,695,000
1996	372,210,000
1997	425,936,000
1998	364,028,000
1999	412,340,000
2000	450,850,000
2001	451,863,000

Fiscal Year	Current Dollars
2002	367,541,000
2003	318,680,000
2004	308,110,000
2005	284,060,000
2006	281,132,000
2007	280,623,000
2008	774,232,000
2009	312,800,000
2010	$293,000,000

Source: Data provided by EDA's Washington, DC, Office to CRS and available upon request.

Note: Funding includes regular and supplemental (disaster relief and countercyclical job creation funding) appropriations for EDA.

Administration's FY2011 Request

As part of the general appropriations process and reauthorization of EDA, the 111th Congress is considering whether to shift funding among EDA programs to assist distressed areas, transferring funding from public works to economic adjustment assistance programs. Particular initiatives under debate include funding for regional planning and matching grants for regional innovation clusters, and the launch of a national network of public-private business incubators.

The Administration's FY2011 request for EDA is $286.2 million, or $6.8 million (2.3%) less than the FY2010 enacted amount of $293 million (see **Table 5**). EDA received $255 million for Economic Development Assistance Programs (EDAP) in FY2010, and the Administration's FY2011 request of $246 million represents a $9 million reduction (3.5%).

Table 5. Recent EDA Appropriations by Sub-Program

In millions of dollars

Program	FY2008	FY2009	FY2010	FY2011 Request
Public Works and Economic Development	$148.2	$118.3	$133.3	$42.8
Economic Adjustment Assistance	42.3	35.3	38.6	125.0
Planning Assistance	25.4	31.0	31.0	31.0
Technical Assistance	9.3	9.4	9.8	13.4
Research and Evaluation	0.5	0.5	1.5	1.5
Trade Adjustment Assistance	14.1	15.8	15.8	15.8
Global Climate Mitigation	9.3	14.7	25.0	16.5
Salaries and Expenses	30.8	32.8	38.0	40.2

Program	FY2008	FY2009	FY2010	FY2011 Request
Sub-Total for Economic Development Assistance Programs (EDAP)	**249.1**	**225.0**	**255.0**	**246.0**
Other (Unobligated Balance Recissions)		15.0		
Sub-Total Without Supplementals	**279.9**	**272.8**	**293.0**	**286.2**
Supplemental Trade Adjustment funding (P.L. 111-32)		40.0		
Supplemental Disaster Relief funding (P.L. 110-329, P.L. 110-252)	500.0	0.0	0.0	0.0
Supplemental American Recovery and Reinvestment Act funding (P.L. 111-5)		150.0		
Total with Supplementals	**$779.9**	**$462.8**	**$293.0**	**$286.2**

Source: EDA Congressional Budget Justifications, FY2008-FY2011, http://www.osec.doc.gov/bmi/Budget/default.htm.

Note: EDA's FY 2011 budget requests at least $75 million in regional planning and implementation grants for Regional Innovation Clusters.

Proposed Shift in EDA Funds

The Administration proposes to transfer $90.5 million from EDA's Public Works grants to other EDA programs: a total of $86.4 million would be transferred to the Economic Adjustment Assistance program, and $3.6 million would be transferred to the Technical Assistance program. The remaining funds would be allocated to administration. The Public Works program would be reduced from $133.3 million in FY2010 to $42.8 million in FY2011.

The rationale for transferring funds from Public Works to Economic Adjustment Assistance is the level of flexibility in the use of funds. Funding for Public Works projects can be used for two purposes: to build infrastructure, or to maintain and repair infrastructure. In contrast, Economic Adjustment Assistance funding can be used both to build and maintain infrastructure, and to provide technical assistance, conduct studies, hire consultants, and conduct research, among other uses.

Supporters of the shift in funding might argue that it will provide more flexibility for EDA grant recipients and projects. Detractors might indicate that Public Works has been at the center of EDA projects since the agency's creation in the mid 1960s, and that transferring Public Works funding to studies, research, and consulting might lead to a decline in funding bricks-and-mortar projects which are essential for economically distressed areas.

Proposed Reduction in Global Climate Change Mitigation Incentive Fund (GCCMIF)

EDA established the GCCMIF in FY2008 to promote EDA policies and strategies which contribute to "green" construction. The FY2011 budget request proposes a reduction in the Fund, from $25 million to $16.5 million. According to EDA's Congressional Budget Justification, a challenge for the Fund has been the narrow definition of "green" projects.[23] EDA is proposing to implement a more broadly defined Fund that may include the development or manufacturing of products such as wind turbines. Projects may also include the construction or renovation of green buildings, in accordance with the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system.

Proposed Increase in Salaries and Expenses

Congress could consider actions necessary to increase staff in the agency's six regional offices, including Economic Development Representatives (EDRs), and staff at its headquarters office, because since FY2002, EDA has undergone a significant downsizing of its professional workforce. A concern for EDA grantees has been the delay in processing grant applications in regional offices and headquarters as a result of limited staff numbers. EDA is proposing an increase from $38 million in FY2010 to $40.2 million in FY2011 for salaries and expenses, which could result in the hiring of additional staff.

Funding for Regional Innovation Clusters and Business Incubators

One of EDA's policy priorities is to assist distressed areas affected by unemployment as a result of the current recession, in particular, funding for regional planning and matching grants for regional innovation clusters, and the launch of a national network of public-private business incubators, to be funded under Economic Adjustment Assistance grants.

Regional Innovation Clusters (RICs)

As part of his FY2010 budget request to Congress, President Obama called for two $50 million special EDA initiatives—one to help nurture regional innovation clusters across the country and the other to build a nationwide network of business incubators. EDA defines "Regional Innovation Clusters" as

> interconnected networks of businesses, academic institutions, research facilities, science and technology parks, and professional associations that generate a virtuous cycle of regional competitive strength and economic adaptability and that can be fostered through innovative governmental initiatives.[24]

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[23] U.S. Department of Commerce, *Economic Development Administration FY2011 Congressional Budget Justification*, February 2010, http://www.osec.doc.gov/bmi/budget/11CJ/EDA%20FY%202011%20Congressional%20v5.pdf.

[24] U.S. Department of Commerce, Economic Development Administration, *EDA Congressional Budget Justification, FY2011*, Washington, DC, February 2010, p. 7, http://www.osec.doc.gov/bmi/budget/11CJ/EDA%20FY%202011%20Congressional%20v5.pdf.

Examples of RICs include Silicon Valley in California, the Research Triangle in North Carolina, and parts of the metropolitan Boston area connected by Route 128, where many biotechnology companies are located. The concept of RICs was developed by Michael Porter of Harvard University in the late 1990s.[25] These clusters are characterized by a combination of academic institutions, research facilities, small business startups, and government programs that seek to develop competitive new technologies and higher-skilled jobs.[26]

EDA's FY2011 budget request includes $75 million in regional planning and implementation grants for RICs.

Business Incubators

Business incubators are organizations that offer a wide array of services to new, typically small companies. These services may include the construction, rehabilitation, or purchase of structures for the express purpose of fostering and supporting start-up companies. In FY2010, EDA requested $50 million for business incubators to create a network to share best practices.

According to the findings of a 2008 study conducted by Grant-Thornton, which measured the economic impacts of EDA's Public Works and EAA-financed construction projects, every $10,000 in EDA funds invested in business incubators generates an estimated 47 to 69 local jobs.[27] The study found that in rural areas, business incubator projects are the most effective type of EDA project because they promote collaboration and the development of entrepreneurial companies by providing an array of business support resources and services.[28] In addition, a 1997 EDA study found that 87% of incubator graduates stay in business, and most remain in the regions where the businesses were founded.[29]

Although the FY2011 budget requests no funds specifically for business incubators, they will continue to be funded through the Public Works and Economic Adjustment Assistance programs.

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[25] See Michael Porter, "Clusters and the New Economics of Competition," *Harvard Business Review*, November - December 1998, pp. 77-90.

[26] U.S. Department of Commerce, *FY2010 Congressional Budget Justification*, February 2009, http://www.osec.doc.gov/bmi/budget/FY10CBJ.htm.

[27] Grant-Thornton, *Construction Grants Program Impact Assessment Report*, Volume 1, Washington, DC, September 30, 2008, p. 44, http://www.eda.gov/PDF/EDAConsImpactStudyVolume1FINAL.pdf.

[28] Ibid.

[29] See Robert Lake, Robin Leichenko, and Amy Glasmeier, et al., *EDA and U.S. Economic Distress: 1965-2000*, Rutgers University, New Brunswick, NJ, July 2004, at http://www.eda.gov/PDF/ 2004JulyEDAandU.S.EconomicDistressReport.pdf and University of Michigan, NBIA, Ohio University and Southern Technology Council, *Business Incubation Works*. Athens, Ohio: National Business Incubation Association, 1997.

Appendix A. EDA Regional Offices

Table A-1. EDA Regional Offices

Regional Office	States or Insular Areas in Jurisdiction
Atlanta Regional Office	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee
Austin Regional Office	Arkansas, Louisiana, New Mexico, Oklahoma, Texas
Denver Regional Office	Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, North Dakota, South Dakota, Utah, Wyoming
Philadelphia Regional Office	Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, Puerto Rico, Virgin Islands
Chicago Regional Office	Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin
Seattle Regional Office	Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Washington, American Samoa, Northern Mariana Islands, Guam, Federated States of Micronesia, Rep. of Marshall Islands, Rep. of Palau

Source: U.S. Department of Commerce, Economic Development Administration, Regional Offices, http://www.eda.gov/AboutEDA/Regions.xml.

Appendix B. EDA Grants by State

Funding by State

EDA is required to provide an annual report on the allocation of funds appropriated and grants by state. **Table B-1** shows the number, dollar amount, and share of EDA grants by state and insular area for FY2007 and FY2008, the latest fiscal years for which data are available.

Table B-1. Allocation of EDA Grants by State for FY2007 and FY2008

	Grants FY2007			Grants FY2008		
State	Number	Dollar Amount	Share of Total	Number	Dollar Amount	Share of Total
Alabama	13	$2,621,000	1%	14	$3,936,000	1%
Alaska	26	15,627,000	6%	24	1,0105,000	4%
Samoa	1	2,105,000	1%			0%
Arizona	11	988,000	0%	17	7,776,000	3%
Arkansas	9	6,342,000	2%	17	7,082,000	3%
California	37	24,619,000	9%	31	19,944,000	7%
Colorado	13	1,421,000	1%	9	2,838,000	1%
Connecticut	1	65,000	0%	3	275,000	0%
DC	6	1,589,000	1%	1	2,000,000	1%
Florida	13	3,172,000	1%	18	4,195,000	1%
Georgia	24	7,642,000	3%	23	8,069,000	3%
Hawaii	8	3,772,000	1%	6	2,234,000	1%
Idaho	13	2,254,000	1%	14	2,985,000	1%
Illinois	22	10,961,000	4%	19	5,598,000	2%
Indiana	14	5,823,000	2%	9	5,069,000	2%
Iowa	21	4,590,000	2%	21	2,670,000	1%
Kansas	8	784,000	0%	11	7,019,000	2%
Kentucky	12	5,804,000	2%	9	4,685,000	2%
Louisiana	19	6,903,000	2%	18	12,859,000	5%
Maine	10	2,851,000	1%	10	1,319,000	0%
Maryland	9	7,979,000	3%	8	745,000	0%
Massachusetts	11	3,762,000	1%	15	5,440,000	2%
Michigan	23	5,812,000	2%	17	11,640,000	4%
Minnesota	14	3,225,000	1%	13	4,689,000	2%
Mississippi	17	6,257,000	2%	13	5,340,000	2%
Missouri	23	4,294,000	2%	22	2,172,000	1%
Montana	23	3,694,000	1%	23	3,570,000	1%

	Grants FY2007			Grants FY2008		
State	Number	Dollar Amount	Share of Total	Number	Dollar Amount	Share of Total
Multi-Jurisdictional	13	13,673,000	5%	31	1,7196,000	6%
Nebraska	12	4,274,000	2%	14	2,586,000	1%
Nevada	2	217,000	0%	5	2,243,000	1%
New Hampshire	6	2,789,000	1%	7	1,809,000	1%
New Jersey	3	1,660,000	1%	4	4,160,000	1%
New Mexico	14	7,825,000	3%	11	5,995,000	2%
New York	19	7,317,000	3%	18	6,425,000	2%
North Carolina	27	9,852,000	4%	21	5,162,000	2%
North Dakota	15	2,229,000	1%	18	2,478,000	1%
Ohio	10	7,123,000	3%	9	6,139,000	2%
Oklahoma	10	2,996,000	1%	12	3,591,000	1%
Oregon	26	3,672,000	1%	27	6,405,000	2%
Pennsylvania	22	12,455,000	4%	18	7,487,000	3%
Puerto Rico	3	286,000	0%	3	2,225,000	1%
Rhode Island	1	125,000	0%	3	277,000	0%
South Carolina	15	6,133,000	2%	8	7,927,000	3%
South Dakota	13	3,264,000	1%	13	649,000	0%
Tennessee	19	7,820,000	3%	17	7,144,000	3%
Texas	20	15,088,000	5%	31	14,595,000	5%
Utah	7	2,307,000	1%	7	1,819,000	1%
Vermont	2	156,000	0%	1	56,000	0%
Virgin Islands	1	85,000	0%	2	3,552,000	1%
Virginia	20	4,996,000	2%	15	5,690,000	2%
Washington	31	6,791,000	2%	34	6,440,000	2%
West Virginia	15	5,034,000	2%	14	6,617,000	2%
Wisconsin	14	3,406,000	1%	15	4,132,000	1%
Wyoming	7	385,000	0%	7	2,130,000	1%
Totals:	748	$276,914,000	100%	753	$281,282,000	100%

Source: U.S. Department of Commerce, Economic Development Administration *2007 and 2008 Annual Reports*, http://www.eda.gov/PDF/2007AnnualReport.pdf.

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