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ECONOMIC DEVEPLOPMENT ADMINISTRATION OVERSIGHT

HEARING

BEFORE THE

SUBCOMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

OF THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

SEPTEMBER 9, 2008

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SECOND SESSION

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ECONOMIC DEVEPLOPMENT ADMINISTRATION OVERSIGHT

Tuesday, September 9, 2008

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
SUBCOMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
Washington, DC.

The committee met, pursuant to notice, at 10 a.m. in room 406, Dirksen Senate Building, Hon. Benjamin Cardin (chairman of the committee) presiding.

Present: Senators Cardin, Inhofe, Isakson, Bond.

OPENING STATEMENT OF HON. BENJAMIN CARDIN, U.S. SENATOR FROM THE STATE OF MARYLAND

Senator CARDIN. Good morning. The Subcommittee on Transportation and Infrastructure of the Committee on Environment and Public Works is conducting an oversight hearing on the Economic Development Administration.

In 1965, Congress and President Lyndon Johnson created the Economic Development Administration for job promotion and to accelerate industrial and commercial growth in communities suffering from limited job opportunities, low per capita income levels or similar economic distress. An agency within the Department of Commerce, EDA's stated mission is to "lead the Federal economic development agenda by promoting innovation and competitiveness, preparing America's regions for growth and success in the worldwide economy."

As the only Federal agency focusing solely on promoting private sector job growth in economically under-served communities, EDA pursues regional comprehensive strategic development, public works and business loan funds. Working in partnership with State and local government, regional economic development organizations, public and private non-profit organizations, universities and Indian tribes, EDA provides grants to help communities. These investments go toward revitalization, expansion or upgrading of physical infrastructure in order to attract new industries, encourage business expansion and diversify local economies.

In so doing, EDA seeks to establish foundations that enable communities to develop their own economic development programs for sustained development. In some instances, economic problems may be associated with long-term, chronic conditions. In other cases, communities may need economic assistance in recovering from natural disasters or unforeseen challenges. According to an independent auditor, EDA has established a proven record of success.

Using increasingly limited resources, EDA is still able to complete projects in a timely manner that leverage private sector investment. In my home State of Maryland, for example, EDA has supported 14 projects in the last 2 years that are credited with creating 1,875 jobs and leveraging $160 million in private investment.

According to EDA's congressional testimony, EDA helps create new American jobs at a cost of only $2,825 per job. And the agency's succeeds in leveraging over $28 in private sector investment for every dollar we invest. In a few minutes, we will be hearing from the Deputy Assistant Secretary to detail EDA's accomplishments and challenges. The Department of Commerce Inspector General, however, has identified problems in the management of EDA's revolving loan fund. A lack of accounting controls and other factors led the IG to issue a number of recommendations to improve the efficiency of this key EDA program. We will be hearing more from the IG in a few moments about his findings and recommendations and his report will be made part of our record.

We will be hearing from those who are in the front lines of economic development, our State and regional councils and local governments. It is here that EDA's funded programs actually create or retain jobs. During our second panel, we will hear today from these key customers about their experiences with EDA. The current authorization for EDA expires at the end of September. So we don't have a lot of time.

Key questions must be considered during reauthorization, including the funding levels. Although we authorize $500 million annually, the EDA receives considerably less than that amount. They only receive about $280 million in fiscal years 2007 and 2008. This marks a reduction of nearly 40 percent of the 2001 levels, when EDA was funded at $440 million, including $287 million for EDA public works programs.

For Fiscal Year 2009, the Administration proposes to cut EDA's budget by more than half again, down to $133 million. In so doing, the Administration's proposal would virtually eliminate the public works program altogether. I find this hard to understand, when we are in tough economic times and trying to create more jobs, why the Administration's budget would actually reduce a program that is aimed at creating more jobs, particularly in difficult communities.

The Senate Appropriations Committee recently adopted its Fiscal Year 2009 Commerce-Justice-Science Appropriation Bill, which included EDA funding. In its present form, the bill restores most of the President's cuts, but still cuts the program by more than $47 million. The bulk of the cuts come in the reduction of EDA's public works programs. The Senate Appropriation measure maintains a level funding for EDA's planning grant program at $27 million.

This hearing will focus on reauthorization priorities, funding levels, oversight and future expectations for EDA. We will hear from two panels of witnesses. The first panel will consist of two witnesses, Deputy Assistant Secretary from the Department of Commerce and the Department's Inspector General. The second panel will include key constituents utilizing EDA's programs, the State of Maryland Secretary of Business and Economic Development, the President of the National Association of Development of Organiza-

tion and the Mayor of Elgin, Oklahoma. We are anxious to hear their perspectives from across America.

Before we turn to the panelists, I would first ask my colleague, the Ranking Member of the Subcommittee, Senator Isakson, for his opening comments.

[The prepared statement of Senator Cardin follows:]

STATEMENT OF HON. BENJAMIN L. CARDIN, U.S. SENATOR FROM THE STATE OF MARYLAND

Good morning.

Today the Subcommittee on Transportation and Infrastructure of the Committee on Environment and Public Works is conducting an oversight hearing on the Economic Development Administration.

With the Public Works and Economic Development of 1965, Congress and President Lyndon Johnson created the Economic Development Administration (EDA) for job promotion and to accelerate industrial and commercial growth in communities suffering from limited job opportunities, low per capita income levels, or similar economic distress. An agency within the Department of Commerce, EDA's stated mission is to "lead the Federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy."

As the only Federal agency focusing solely on promoting private sector job growth in economically underserved communities, EDA pursues regional comprehensive strategy development, public works, and business loan funds. Working in partnership with

- State and local governments,
- regional economic development organizations,
- public and private nonprofit organizations,
- universities, and
- Indian tribes,

EDA provides grants to help communities.

These investments go toward revitalization, expansion or upgrading of physical infrastructure in order to attract new industry, encourage business expansion, and diversify local economies. In so doing, EDA seeks to establish foundations that enable communities to develop their own economic development programs for sustained development. In some instances, economic problems may be associated with long-term, chronic conditions. In other cases, communities may need economic assistance in recovering from natural disasters or other unforeseen challenges

According to an independent auditor, EDA has established a proven record of using increasingly limited resources to complete projects in a timely manner that leverages private sector investment. In my home State of Maryland, for example, EDA has supported 14 projects in the last 2 years that are credited with creating 1,875 jobs and leveraging $160 million in private investment.

According to EDA congressional testimony, EDA helps "create new American jobs at a cost of only $2,825 per job," and the agency succeeds in leveraging "over $28 in private sector investments for every taxpayer dollar we invest." In a few minutes we will be hearing from the Assistant Secretary to detail EDA's accomplishments and challenges.

The Department of Commerce's Inspector General, however, has identified problems in the management of EDA's Revolving Loan Fund. A lack of accounting controls and other factors led the IG to issue a number of recommendations to improve the efficiency of this key EDA program. We will be hearing more from the IG in a few minutes about his findings and recommendations.

We will also be hearing from those who are on the front lines of economic developmen—our states, regional councils, and local governments. It is here that the EDA-funded programs actually create or retain jobs. During our second panel we will hear today from these key customers about their experiences with EDA.

The current authorization for the Economic Development Administration expires at the end of September. Key questions must be considered during reauthorization, including funding. Although authorized at $500 million annually, the EDA receives considerably less than that amount, having received about $280 million in fiscal years 2007 and 2008. This marks a reduction of nearly 40 percent from the 2001 levels when EDA was funded at $440 million, including $287 million for the EDA Public Works Program. For fiscal year 2009, the administration proposes to cut the EDA's budget by more than half again, down to $133 million. In so doing, the ad-

ministration's proposal would virtually eliminate the Public Works Program altogether.

The Senate Appropriations Committee recently adopted its fiscal year 2009 Commerce-Justice-Science Appropriations bill, which includes EDA funding. In its present form, the bill restores most of the President's proposed cuts, but still cuts the program by more than $47 million. The bulk of the cut comes in a reduction to EDA's Public Works program. The Senate appropriations measure maintains level funding for EDA's planning grant program at $27 million.

The hearing will focus on reauthorization priorities, funding levels, oversight and future expectations for the Economic Development Administration.

We will hear from two panels of witnesses today. The first panel will consist of two witnesses: an Assistant Secretary from the Department of Commerce and the Department's Inspector General.

The second panel will include key constituents who utilize EDA programs:

- the State of Maryland's Secretary of Business and Economic Development,
- the President of the National Association of Development Organizations, and
- the Mayor of Elgin, Oklahoma.

We are anxious to hear their perspectives from across America.

Let me turn to our Ranking Member, Senator Isakson, for any opening comments before we hear from our witnesses.

OPENING STATEMENT OF HON. JOHNNY ISAKSON, U.S. SENATOR FROM THE STATE OF GEORGIA

Senator ISAKSON. Thank you very much, Chairman Cardin.

The Economic Development Administration is a key provider of, in fact was the venture capital for the development of jobs and economic development and improvement in some of Georgia's and the United States' most distressed communities. In my State of Georgia, from Dooly County to Tennille, Georgia, which is in Washington County, we have seen EDA grants have a dramatic impact on small communities in our State.

I was especially proud that Paulding County Commissioner Chairman Jerry Shearin and the board of commissioners of Paulding County won EDA's 2007 Excellence in Economic Development award for innovation in economic development surrounding the new airport in Paulding County. National recognition of the innovative plan was for the airport and the placement of offices, businesses, adjacent properties and economic development in Paulding County.

While I could talk on and on about the importance of innovation, the investment in the future and providing jobs, we are here today to hear from each of our panelists, so I will turn it back over to you, Chairman Cardin.

Senator CARDIN. Thank you. We have the Ranking Member of the full Committee with us today, Senator Inhofe.

OPENING STATEMENT OF HON. JAMES M. INHOFE, U.S. SENATOR FROM THE STATE OF OKLAHOMA

Senator INHOFE. Thank you, Mr. Chairman.

I thank you for having this hearing right now. I think most of us, probably all of us at this table up here, would have preferred to do this before, to get this done. We are down to the wire now, but it can be done. I am particularly pleased to welcome Larry Thoma, of Elgin, Oklahoma. There may be some here who have never been to Elgin, Oklahoma, but I can tell you, it is changing more than any community in America today, isn't it, Larry?

Last month, I was there for the ribbon-cutting ceremony for a new facility at Elgin Industrial Park that would have been impossible without an EDA grant. The EDA grant that we came through was relatively small, it was $2.25 million. As a result, we have completed, I don't want to take your speech, but this is going to become a major military industrial park, probably the foremost industrial park anywhere in America.

I joined EDA in August in presenting a grant to the city of Woodward, to help bring them Woodward Community campus. This project will lead to 192 jobs and $1.6 million in private investment.

Mr. Chairman, I have a list here of things that we have done in the State of Oklahoma, and the ratios are about the same as yours in the State of Maryland. It is about 20 to 1. And these things could not have been done if it had not been for the Economic Development Administration, for EDA. That is why I think it can be reauthorized.

I am going to ask that my entire statement be made a part of the record, and conclude with a conversation I had last night, with Jim Oberstar, who is the Chairman of Transportation and Infrastructure over in the House. He and I both agree, and Senator Cardin agrees, I think all of us up here agree, this can be done, we can get this thing done before we go into adjournment. I think it is absolutely necessary to do it.

So whether the vehicle that is used is mine or somebody else's is irrelevant. I think it can be done, there is time. But this is one of the areas, there are lots of conflicts in this Committee, lots of disagreements philosophically. On this, I think we all agree, and we agree it needs to be done.

Thank you, Mr. Chairman.

[The prepared statement of Senator Inhofe follows:]

STATEMENT OF HON. JAMES M. INHOFE, U.S. SENATOR FROM THE STATE OF OKLAHOMA

Thank you Senator Cardin for chairing this hearing on a very important topic. I wish we had turned to this topic earlier in the year, because I am concerned that this late start means we may not have time to actually enact EDA reauthorization—such as my bill, S. 3264—before the current authorization expires this month. Regardless of timing, though, I am glad we are having this hearing, and I am especially pleased to welcome Mayor Larry Thoma of Elgin, Oklahoma.

I was in Elgin last month for a ribbon-cutting ceremony for a new facility at the Elgin Industrial Park that would not have been possible without EDA investment. I will let Mayor Thoma talk about the details of EDA involvement and what it has meant to Elgin, but I consider this to be just one of the numerous examples of the good work EDA has accomplished working with communities struggling with economic distress to bring in private investment and jobs in my home State of Oklahoma, as well as all across the country.

I joined EDA in August in presenting a grant to the city of Woodward to help build the Woodward Community Campus. This project will lead to 192 jobs and $1.6 million in private investment. Another recent EDA grant will benefit the city of Watts and Adair County by supporting the construction of infrastructure improvements to accommodate the development of a new state-of-the-art plastic recycling and composite building material manufacturing facility.

Since the fall of 2004 when we last reauthorized the agency, EDA investments in Oklahoma include support for industrial park improvements in Ardmore and Hobart, intended to generate more than $6.6 million in private investment in Ardmore and help create 120 jobs in Hobart.

We saved and created new jobs in Clinton with water system improvements necessary to provide fire suppression protection for residents and current and prospective businesses. We paved the way for thousands of new jobs in Oklahoma City by helping provide the infrastructure necessary for a new Dell service center.

EDA assisted the Choctaw Nation of Oklahoma fund construction of an assembly facility for a next generation tactical vehicle trailer for the U.S. Marine Corps in Durant, Oklahoma. Also in the Durant area, EDA funds were used to create additional space to manufacture and assemble goods in an expanded Foreign Trade Zone.

Additionally, many of the economic development districts in Oklahoma have received EDA grants to provide valuable planning and technical assistance to help communities build local capacity to focus on long-term economic and social challenges. These planning grants can be critical in particular to small, rural communities which often cannot otherwise afford to maintain this professional and technical capacity.

Taken all together, EDA's public works and economic adjustment grants awarded in my home State over the past five and a half years have resulted in almost 9,000 jobs being created or saved. With an investment of about $24.6 million, we have leveraged almost 29 million in State and local dollars and more than 433 million in private sector dollars. I would call that a wonderful success story.

These numbers are backed up by studies that show that EDA uses Federal dollars efficiently and effectively, creating and retaining long-term jobs at an average cost that is among the lowest in government. Today's hearing gives us an opportunity to discuss possible tools to improve performance even further during the reauthorization process.

The EDA's authorization is set to expire just three short weeks from today, on September 30, 2008. I am concerned that allowing this authorization to lapse will result in uncertainty for this very successful agency and the struggling communities that depend on its assistance. I recently spoke with Congressman Jim Oberstar, Chairman of the House Transportation and Infrastructure Committee; we both agreed that we need to work together to get this done before Congress recesses or adjourns this month, and we both believe that we can get it done if we work quickly and together. I look forward to working with my colleagues here on the Committee and in the House, as well as with the Administration and interested stakeholders, to reauthorize EDA as soon as possible.

Senator CARDIN. Thank you for your comments. I know that Senator Baucus and Senator Boxer both are very anxious to see whether we can get this done before the authorization expires. I thank you very much for your comments.

Senator Bond.

OPENING STATEMENT OF HON. CHRISTOPHER S. BOND, U.S. SENATOR FROM THE STATE OF MISSOURI

Senator BOND. Thank you very much, Mr. Chairman and Ranking Member Isakson, and our witnesses coming today to talk about a very important subject. Your perspectives on the importance of understanding the economic impact that EDA has had across the Country and how best to craft the reauthorization that improves EDA efficiency while continuing to make the United States competitive in this changing economic environment will be very important.

I believe the EDA has been successful over the years because it has remained true to its main guideline, and that is that distressed communities must be empowered to develop and implement their own economic revitalization strategy. I have had the pleasure of working with many of those communities, and where we can get an EDA grant, that has made a tremendous difference. In Missouri, EDA grants have been essential to local investment in economic growth. For instance, over the last 8 years, EDA has implemented over 170 projects, and invested more than $38 million in Missouri. During that time, EDA funds have led to the creation of over 11,000 jobs in my State and leveraged an additional $1.29 billion in private sector funds. It has worked to diversify our job base, focusing on high tech, high growth industries. This refocusing has al-

lowed Missouri to compete globally for private investment that attracts and maintains high-paying jobs.

For example, Mr. Chairman, EDA awarded a $2.9 million grant as seed capital for the Center for Research, Technology and Entrepreneurial Experience in St. Louis. The funds helped immediately leverage over $30 million to create a life science research and commercialization district that focuses on transforming scientific innovation into new companies to create jobs in St. Louis' urban core. In the long run, this research center is expected to encourage over $400 million in investment by concentrating essential life science resources in one community. Not a bad return on a $2.9 million investment.

In 2005, the Southwest Area Career Center in Monett received a $1.25 million EDA grant to build a new facility in the career center to accommodate expanding enrollment and offer students additional training programs, the type of technical and vocational education provided at SWACC is essential in creating a well-trained work force and attracting business to rural Missouri, and should ensure that southwest Missouri and the United States continue to lead in the global economy.

In the Senate, we are asked to make difficult decisions. However, too often we make straightforward decisions difficult. We must reauthorize EDA. We must give them the tools and the resources necessary to generate good jobs in the areas that need them the most, to keep the United States competitive.

Again, I thank the Chair and the Ranking Member. I look forward to hearing and reading the testimony and to working together to ensure that EDA continues to be a vital tool to help empower economic development.

Mr. Chairman, I will spare you reading the entire statement, and ask that that it be accepted into the record.

[The prepared statement of Senator Bond follows:]

STATEMENT OF HON. CHRISTOPHER S. BOND, U.S. SENATOR FROM THE STATE OF MISSOURI

First, thank you Chairman Baucus and Ranking Member Isakson for holding this hearing today. I am pleased to be here to discuss a subject vital to the State of Missouri and the country, the reauthorization and oversight of the Economic Development Administration.

In addition, thank you to all the witnesses for appearing before us today. Your perspectives on this issue are important to understanding the economic impact the EDA has across the country and how best to craft a reauthorization that improves EDA efficiency while continuing to make the United States competitive in this changing economic environment.

The Economic Development Administration was established nearly forty-five years ago under the Public Works and Economic Development Act of 1965. During those years, our economy has enjoyed significant economic growth and has weathered through some tough times. But regardless of the times, there will always be distressed regions across our country that lack the necessary resources to share in the greater economic success of our Nation.

The EDA has been successful over the years because it has remained true to its guideline that "distressed communities must be empowered to develop and implement their own economic revitalization strategies." The EDA works in partnership with State and local governments by providing Federal grants to public and private nonprofit organizations, regional economic development agencies and Indian tribes. This type of approach not only gives distressed communities a voice in Washington but also instills the community responsibility and accountability that has allowed the EDA to be successful.

In Missouri, EDA grants have been essential to local investment and economic growth. For instance, over the last 8 years EDA has implemented over 170 projects and invested more than $38 million in Missouri. During that time, EDA funds have led to the creation of over 11,000 jobs in my State and leveraged an additional $1.29 billion in private sector funds.

The EDA investment in economic development initiatives across Missouri has worked to diversify our job base by focusing on high-tech, high-growth industries. This refocusing has allowed Missouri to compete globally for the private investment that attracts and maintain higher paying jobs in the area.

For example, EDA awarded a $2.9 million grant as seed capital for the Center of Research, Technology and Entrepreneurial Expertise in St. Louis. The Federal funds helped immediately leverage over $30 million to create a life science research and commercialization district that focuses on transforming scientific innovation into new companies to create jobs in the St. Louis urban core. In the long run, this research center is expected to encourage over $400 million in investment by concentrating the essential life science resources in one community.

In 2005, the Southwest Area Career Center in Monett received a $1.25 million EDA grant to build a new facility in the career center to accommodate expanding enrollment and offer students additional training programs. The type of technical and vocational education provided at the SWACC is essential in creating a well-trained workforce and attracting business to rural Missouri and will ensure that Southwest Missouri and the United States continue to be a leader in the global economy.

Here in the Senate we are asked to make difficult decisions. However, too often we make straightforward decisions difficult. We must reauthorize the EDA and give them the tools necessary to generate good jobs in the areas that need them the most to keep the United States competitive.

Again, I thank Senators Baucus and Isakson and the witnesses for their hard work. I look forward to hearing your testimony and working together to ensure that the EDA continues to be a vital tool to help empower economic development.

Senator CARDIN. Without objection, all the opening statements will be included in the record.

I also ask unanimous consent that the statement of Lawrence Molnar, President of the Education Association of University Centers, be made part of our record.

[The prepared statement of Mr. Molnar follows:]

STATEMENT OF LAWRENCE MOLNAR
PRESIDENT, EDUCATIONAL ASSOCIATION OF UNIVERSITY CENTERS
ON BEHALF OF THE EDA UNIVERSITY CENTER PROGRAM
FOR THE TRANSPORTATION AND INFRASTRUCTURE SUBCOMMITTEE
SEPTEMBER 9, 2008

As President of the Educational Association of University Centers, which is the advocacy organization for universities in the EDA University Center Program, I am pleased to provide this statement regarding reauthorization of the Economic Development Administration and for this important program administered by the Economic Development Administration. The EDA University Center Program is a network of centers located at universities and colleges in most states. The program has operated for over 30 years as the only federally funded program specifically designed to link the higher education system in the U.S. with local and regional economic development organizations, local units of government, private sector companies, non-profits and regional organizations. There are about 55 centers in the program currently.

A powerful example of University Center activity is the initiative has been undertaken by my EDA University Center program at the University of Michigan. We have partnered with EDA Centers at Cleveland State University, Ohio University and Purdue University. The program is working with over 20 communities and helps tens of thousands of people that are suffering social and economic distress because of dozens major manufacturing plant closures in Michigan, Ohio, Indiana, and Wisconsin. The University Center programs are collaborating to deliver services to the impacted communities and to help the communities to access resources from a range of federal agencies, state agencies and non-profit organizations. The communities and regions that are benefiting from the program are receiving assistance and access to resources that address both adverse economic impacts of plant closures as well as assistance to help individuals and families that are suffering. Adverse social impacts include loss of income, inability to meet house payments resulting in foreclosures, loss of health insurance, increased substance abuse, increased need for support for food banks and other forms of assistance to children and families. The highly successful program was funded as a national demonstration project for 2006 and 2007 and funding is expected for the coming fiscal year and beyond.

Through the University Center program the resources, research, expertise, experience and capabilities of the higher education system are made accessible to help capitalize on opportunities, address problems and overcome economic challenges for areas suffering economic dislocation and distress. Each University Center reflects the character and capacities of the host institution and tailors its portfolio of programs, projects and services based on the institution and the needs of the region that each center serves.

Another example of the wide range of University Center Program assistance activities is a project conducted by the University of Pennsylvania EDA University Center that is designed to create new linkages to stimulate job growth in defense-related firms.. The South Central Workforce Investment Area of Pennsylvania created a Department of Defense (DoD) Industry Partnership to strengthen the region's defense industry through targeted skills training. Penn State University's Pennsylvania Technical Assistance Program (PennTAP) managed the

development of this Partnership. This Partnership grew out of a state-funded economic development initiative, Job Ready PA, which builds partnerships to more effectively respond to the workforce needs of targeted industries.

The Industry Partnership is comprised of representatives from regional DoD commands and activities, the private contractors supporting those activities, and regional education institutions and training providers. The Partnership acts as a workforce intermediary, connecting the workers and contractors with the educational infrastructure by creating industry-driven training programs in response to identified skill gaps targeting three categories of workers: DoD personnel; civilian contractors providing both infrastructure as well as technical and mission support services; and DoD systems manufacturers and parts and component suppliers. Every University Center Program across the U.S. has dozens of examples of terrific project and program activities that have greatly contributed to the health of regional and local economies and that have addressed economic distress.

The University Center Program and the University Centers that form it up operate in conformance with the EDA's investment principles. That means that programs and projects undertaken by the university centers include: being market-based and results-driven; having strong organizational leadership; advancing productivity, innovation and entrepreneurship; addressing medium to long-term needs; anticipating economic changes; fostering economic diversification; and including a high degree of local commitment. To those ends, the University Center program nationwide participates in economic development activities that help leverage hundreds of millions of dollars in private sector investment and that have helped retain and create many thousands of jobs.

A fundamental objective of the University Center Program is to focus program activities on areas of economic distress and to conduct projects and programs that lead to the creation and retention of high-wage, high-skill, and high-demand jobs. The types of activities undertaken by university centers include direct technical assistance. That assistance can take the form of direct assistance to private sector companies. A typical example of a technical assistance project would be working with a manufacturer to develop a prototype of a new product, analyze the potential market for the product, and help commercialize and launch the new product. The end result is increased production capacity within the firm, resulting in new job creation.

University centers also often have the capacity and the mission to conduct applied research to inform economic development initiatives. Before a significant financial investment is made in an economic development project, due diligence must be performed to determine if there is a high probability for a significant return on investment in terms of jobs created and retained, as well as indirect jobs created and retained in the supply chain and in local and regional commercial and retail businesses. Typical projects that would require applied research to determine potential for success are industrial parks, technology parks, business incubators and accelerators, and public works projects to improve infrastructure, such as potable water treatment plants, wastewater treatment, access roads and other projects.

University centers also conduct economic analyses to identify industry clusters that exist or that have the potential to be created. Industry clusters are private sector companies that exist in a

defined geographic region and that have similar characteristics that can enable individual firms to create competitive advantages through relationships that often include pooled procurement activities or supply chain linkages, where firms provide raw materials, components or other products or services to companies that are using raw materials to produce value-added products or that create products by combining components to produce a finished item for delivery to customers. By conducting the research to identify companies with potential affinity and the potential for benefit from economies of scale, jobs may be created or retained and individual companies made more competitive and profitable.

The economic security, national security and global competitiveness of our nation are increasingly bound with the higher education system of colleges and universities in America. The economy of our nation is in a period of transformation from a primarily industrial-based economy to a post-industrial economy. This transformation is creating enormous challenges as jobs are lost in some sectors and regions, and jobs are created in other sectors and regions. It is essential that the higher education system play an engaged and proactive role in the nation's economy. The EDA University Center Program is the primary federal program to ensure that the critical successful role of higher education in growing the economy and creating jobs continues into the future. It is for that reason that the authorization and funding for this critical program be continued. Because it is a national program, no single state, region or economic sector gains at the expense of any other region or sector with a resulting nationwide benefit. I thank you for your attention to this issue and hope that as you look to re-authorize the EDA, you keep in mind the outstanding work done by EDA University Centers across the nation.

Senator CARDIN. Without objection, the statements from our witnesses will also be included in the record.

I want to first welcome our first panelists, two distinguished public servants, and we very much appreciate your being before our Committee. Benjamin Erulkar is the Deputy Assistant Secretary for Economic Development and Chief Operating Officer at the United States Department of Commerce Economic Development Administration. And Tom Zinser is the Inspector General of the Department of Commerce.

Mr. Secretary, we will hear from you first.

STATEMENT OF BENJAMIN ERULKAR, DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR ECONOMIC DEVELOPMENT AND EDA CHIEF OPERATING OFFICER

Mr. ERULKAR. Senator Cardin, Ranking Member Isakson and members of the Committee, thank you for having me here today to testify on behalf of the Administration and the Economic Development Administration.

I am proud of the accomplishments we have achieved at EDA, and I look forward to continuing to work closely with Congress and our stakeholders to reauthorize EDA and to improve its effectiveness even more in the coming years. EDA's mission is to lead the Federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy.

Our investments create the conditions in which jobs are created, often in the midst of economic hardship or adjustment. For example, in Garrett County, Maryland, EDA investments totaling $2.4 million made between 2004 and 2008 have enabled that region to launch the transformation from an economy based on heavy manufacturing and coal mining to an economy based on tourism, light manufacturing and technology. I am proud that at EDA, we live our mission statement and are actually achieving it, committed to both rural and urban America, with our forward-looking and innovative approach to economic development.

From Fiscal Year 2004 to date, EDA has awarded over $1.29 billion in investments, including construction investments that are expected to create over 392,000 jobs at an average cost of $2,500 per job. On average for this timeframe, every dollar in taxpayer money invested by EDA is expected to attract $33 in private capital investment.

Since 2004, EDA has honed its expertise in responding swiftly and effectively to sudden and severe economic dislocations. We have invested in redevelopment and rebuilding following plant closures in Groveton, New Hampshire, Graniteville, South Carolina, and Wilmington, Ohio. We have invested in the redevelopment strategies of 11 States affected by this summer's floods, part of the $100 million appropriated to EDA in June for this purpose.

Finally, EDA has invested over $34 million in regular program funds to rebuild the Gulf Coast following the 2005 hurricanes that ravaged that region. And the agency is once again mobilizing to address economic redevelopment needs in the wake of Hurricane Gustav.

As EDA has celebrated its successes, we have also aggressively confronted our challenges; more specifically, the administration of its revolving loan fund program. In response to the Department of Commerce Inspector General's 2007 report on revolving loan funds, EDA developed an action plan consisting of 30 elements, on which we are in the home stretch toward completion. It has also implemented five of the seven IG recommendations and is in the final stages of implementing the remaining two.

The President continues to support EDA and our economic development agenda. The President's budget request for Fiscal Year 2009 enabled EDA to continue helping distressed communities, although it does reflect tough fiscal choices. Given these choices, EDA plans to allocate the majority of its funds to its economic adjustment assistance program, our most flexible assistance program. We also plan to fund fully the partnership planning program which supports our network of economic development districts nationwide.

EDA's stakeholders have ideas about how to improve this agency and we have been listening. We have made a concerted effort to encourage feedback over the past 18 months, resulting in the introduction of the Administration's reauthorization legislation this past May. We have taken note of ideas offered in meetings by 232 economic development districts from 32 States during this time and have included in our proposal provisions that give economic development professionals more local control and flexibility in their use of EDA investments.

Senator Cardin, Ranking Member Isakson and members of the Committee, thank you for your time today and for inviting me to address the issues relevant to EDA's reauthorization. Since 2001, the President, Congress and EDA have showed a commitment to advancing this agency and economic development throughout America. I believe that EDA will continue to be a driver for innovation, entrepreneurship, growth and competitiveness in distressed areas of our Country. I therefore look forward to working closely with Congress on reauthorization and urge that an EDA reauthorization bill be acted upon this year.

I look forward to answering any questions you may have.

[The prepared statement of Mr. Erulkar follows:]

Statement by
BENJAMIN ERULKAR
DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR ECONOMIC DEVELOPMENT AND EDA CHIEF OPERATING OFFICER
U.S. SENATE, COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
September 9, 2008 –10 am

Introduction

Senator Cardin, Ranking Member Isakson and members of the committee, thank you for having me here today to testify on behalf of the Administration and the Economic Development Administration (EDA). I am proud of the accomplishments we've achieved at EDA and I look forward to continuing to work closely with Congress and our stakeholders to reauthorize EDA, and improve its effectiveness even more in the coming years.

EDA's mission is to *lead the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy.* The agency does this through grants or "investments" to government entities and eligible non-profits to create jobs and generate private investment. Our investments create the conditions in which jobs are created, often in the midst of economic hardship or adjustment. For example, in Garrett County, Maryland, EDA investments totaling $2.4 million made between 2004 and 2008 have enabled that region to launch the transformation from an economy based on heavy manufacturing and coal mining to an economy based on tourism, light manufacturing and technology. One such EDA investment, the McHenry Business Park, has been particularly successful in attracting technology businesses that generate higher wage jobs.

I am proud that at EDA we live our mission statement and are actually achieving it, committed to both rural and urban America, with our forward-looking and innovative approach to economic development.

Program Successes since 2004

EDA's investments have two goals: attracting private capital investment and creating higher-skill, higher-wage jobs. In FY 2007 alone, EDA awarded over $277 million in investments, of which $209 million was for construction investments that are expected to create 52,134 jobs, according to grantee estimates, at an average cost of $4,000 per job. On average, every dollar in taxpayer money attracts $26 in private capital investment.

From FY 2004 to date, EDA awarded over $1.29 billion in investments, of which $983 million was for construction investments that are expected to create 392,413 jobs at an average cost of $2,507 per job. On average, for this timeframe, every dollar in taxpayer money is expected to attract $33 in private capital investment.

At a time of national economic transformation, effective investment in lagging parts of the country is crucial to maintaining our country's competitive advantage. EDA's track record of achieving results across America owes largely to our investments in projects that reflect three basic policy priorities: collaborative regional economic development, a focus on competitiveness and innovation, and cultivation of entrepreneurship.

For 2008, EDA has added a fourth policy priority: to link our American regional economies to the worldwide marketplace. This new policy priority reflects a basic 21st century economic reality: that all American economic communities now must compete in an integrated worldwide marketplace. EDA's goal is to spur its economic development partners to look beyond their immediate economic regions to understand the challenges and take advantage of the opportunities of the worldwide marketplace.

Responding to Severe Economic Dislocations

Since 2004, EDA has honed its expertise in responding swiftly and effectively to sudden and severe economic dislocations. It has invested in redevelopment and rebuilding following plant closures in Groveton, New Hampshire, Graniteville, South Carolina, and Wilmington, Ohio. By the end of this month, we will have invested in the redevelopment strategies of 11 states affected by this summer's Midwest floods (including $3 million for Iowa), part of the $100 million appropriated to EDA in June for this purpose. Finally, EDA has invested over $34 million in regular program funds to rebuild the Gulf Coast following the 2005 hurricanes that ravaged that region, and the agency is once again mobilizing to address economic redevelopment needs in the wake of Hurricane Gustav.

EDA's Planning Program

In 2004, Congress mandated that EDA fund its Planning program with a minimum of $27 million annually. With this increased funding, and following explicit Congressional direction, EDA has funded 38 previously-designated and unfunded Economic Development Districts (EDDs) as well as 25 newly-designated EDDs. To enable our now 381 EDDs nationwide to spend more time doing economic development work and less time doing paperwork, EDA has moved the vast majority of its Planning program recipients into a three-year funding cycle and will complete this transformation in the near future.

Performance Awards
To recognize and encourage excellence in project development and execution, EDA has since 2004 awarded monetary performance awards to investment recipients. Similarly, planning performance awards to EDDs or other investment recipients recognize excellence in the coordination of planning with project execution. EDA made 14 such awards in 2007, and 24 more have been made already in 2008. These financial awards for successful EDA projects will continue to be granted quarterly.

Redevelopment of Contaminated Sites
Over its 43 year history, EDA has had a longstanding role in funding economic redevelopment of contaminated, abandoned industrial and commercial sites, long before the term brownfield ever appeared in our daily lexicon. Overall, EDA's goal is to create value by returning non-productive, blighted or formerly contaminated real estate to local tax rolls while creating opportunities for capital investment and job creation.

Between FY 2004 and the present, EDA has invested over $129 million in 111 brownfield redevelopment projects. These investments have leveraged over $3.5 billion in private funding and created almost 78,000 jobs.

EDA Excellence in Economic Development Awards
While EDA can rightly speak of our program successes, nothing gives EDA employees more pride and satisfaction than to see an individual project tie all of these goals together to make a real difference in the lives of a community. Two such projects, both winners of EDA Excellence in Economic Development Awards, come to mind:

East Baltimore Development Inc. (2008)
East Baltimore Development Inc. (EBDI) is a nonprofit partnership of private and public entities that has undertaken the single largest redevelopment program in Baltimore, Maryland. It is currently in the process of transforming 88 physically blighted acres with $1.8 billion of new investments. EBDI's goal is to successfully attract families, enterprises and market-oriented investments to the East Baltimore community to equip residents with new housing, employment, business and educational opportunities. EBDI provides displaced homeowners with the resources necessary to start anew in a quality home in a strong neighborhood, and guarantees to displaced residents a new home in the project area once one becomes available. The new Science and Technology Park at Johns Hopkins University complements the initiative with a new economic engine in the community, with opportunities for further expansion. The Park's first biotech building opened on April 11, 2008. This project is one of the most innovative approaches to transforming beleaguered inner cities and other cities have taken notice. For these accomplishments, EBDI received EDA's 2008 Excellence in Urban Economic Development.

Paulding, County, GA (2007)
Paulding County, Georgia's Board of Commissioners won the 2007 EDA Award for Excellence in Innovation for the adoption of a unique, internationally competitive model for economic and self-sustainable development as part of the worldwide economy. With the rising cost of energy, Paulding County had the foresight to turn the whole county into an economic development project by maintaining the area's large, unspoiled natural areas while at the same time creating jobs within the county so residents no longer needed to commute to Atlanta. Implementation of this plan will occur over the next 10-12 years. The result will be a high-tech, environmentally-sensitive development program that will include an airport and retail areas surrounded by forests and wildlife areas. County residents can avoid traffic and expensive gas purchases by commuting to their jobs near home and are within a short drive of the county's airport. The airport is also attractive to businesses hoping to avoid the traffic and airplane congestion of Atlanta's airport. This is a model community for today's high energy-cost environment.

A complete list of FY 2007-2008 EDA Excellence in Economic Development Award recipients appears in Appendix A.

Challenges since 2004
As EDA has celebrated its successes, we have also aggressively confronted our challenges, most specifically the administration of its Revolving Loan Fund (RLF) program. In response to the Department of Commerce Inspector General's (IG) 2007 report on Revolving Loan Funds, EDA developed an Action Plan consisting of 30 elements, and is deep into the home stretch with the completion of 23 elements. It has also implemented five of the seven IG recommendations and is in the final stages of implementing the remaining two. EDA completed testing of an automated RLF reporting, tracking, and management system in August 2008 and determined that the system will be operational by the end of the second quarter of FY 2009. When complete, this system will track all of the IG-recommended data, as well as default rates, audits, excess cash, sequestered cash, and interest remitted. In the interim, EDA is using a reporting tool to oversee the program and provide stakeholders with information about the size and scope of the portfolio.

In addition to the IG's recommendations, EDA developed detailed internal guidance to address the deficiencies identified in the audit. We also required all EDA regional staff and all RLF operators to attend RLF training, including single audit training provided by the OIG, and—in partnership with the OIG—organized five training sessions for our RLF operators. In terms of concrete results, we have increased the on-time reporting rate of RLFs from 50 to 70 percent, and have reduced the number of non-reporting RLFs from 47 at the time of the RLF audit to five.

FY 2009 Budget
The President continues to support EDA and our economic development agenda. The President's budget request of $92.8 million for grants and $30.8 million in salary and expense money for FY 2009 enables EDA to continue helping distressed communities rebound from tough economic conditions.

In a difficult budget environment, the Administration has made tough choices. EDA has a flexible and scalable nature--we can "ramp up" operations, as well as "ramp down" based on available funds. In light of this, EDA plans to allocate the majority of its funds to the Economic Adjustment Assistance program. This program focuses on communities facing sudden and severe economic distress as well as long-term chronic distress. Economic Adjustment is EDA's most flexible assistance since it provides resources for both infrastructure development and strategic planning. Additionally, EDA will continue to utilize funds currently available to fill vacant positions as they arise in 2009, particularly in our regional offices, to reach and maintain the agency's full staff operating level of 175 employees. EDA also plans to fully fund the partnership planning program, which supports the Economic Development Districts, and to maintain the funding level of the popular university center program, which provides valuable research on regional economic issues.

Reauthorization

EDA stakeholders have ideas about how to improve this agency and we've been listening. We have made a concerted effort to encourage feedback as part of our preparation for the agency's 2008 reauthorization, resulting in the introduction of the Administration's reauthorization legislation this past May. I have taken note of ideas offered in meetings by 232 Economic Development Districts (EDDs) from 32 states over the past eighteen months. We have also received feedback online through EDA's web site.

I look forward to working with Congress to reauthorize EDA. As part of our reauthorization proposal, which we submitted on April 16, 2008, we have included provisions that give economic development professionals **more local control and flexibility**. First, the flexibility for Revolving Loan Fund operators to "convert" assets to more productive uses in accordance with a strategic re-use plan; second, the ability to "amortize" or pro-rate the federal interest for construction grants; and, third, for the first time, there is a request for a "dedicated source of funding" to administer the Revolving Loan Fund, to ensure that this program receives the resources it deserves.

Closing

Senator Cardin, Ranking Member and members of the committee, thank you for your time today, and for inviting me to address the issues relevant to EDA's reauthorization. Since 2001, the President, Congress and EDA have shared a commitment to advancing this agency and economic development throughout America. I believe that EDA will continue to be a driver for innovation, entrepreneurship, growth and competitiveness in distressed areas of our country. I therefore look forward to working closely with Congress on reauthorization, and urge that an EDA reauthorization bill be acted upon this year. I look forward to answering any questions you may have.

APPENDIX A

FY 2008 EDA Excellence in Economic Development Awards

1. Excellence in Rural Economic Development
   Jackson County Development Council, Inc.
   Marianna, Florida

2. Excellence in Urban or Suburban Economic Development
   East Baltimore Development, Inc.
   Baltimore, Maryland

3. Excellence in Enhancing Regional Competitiveness
   City of Lima, Ohio
   Lima, Ohio

4. Excellence in Economic Adjustment Strategies
   City of Duluth Economic Development Authority
   Duluth, Minnesota

5. Excellence in Technology-led Economic Development
   Ben Franklin Technology Partners
   Harrisburg, Pennsylvania

6. Excellence in Community and Faith-Based Social Entrepreneurship
   Desert Alliance for Community Empowerment
   Coachella, California

7. Excellence in Innovation in Economic Development
   Bladen's Bloomin' Agri-Industrial, Inc.
   Elizabethtown, North Carolina

8. Excellence in Historic Preservation-led Strategies to Enhance Economic Development
   Silver City MainStreet Project
   Silver City, New Mexico

FY 2007 EDA Excellence in Economic Development Awards

1. Rural Economic Development
   Ohio State University Endeavor Center
   Piketon, OH

2. Urban or Suburban Economic Development
   Gateway Park, LLC
   Worcester, MA

3. Enhancing Regional Competitiveness
   KCSourceLink
   Kansas City, MO

4. Economic Adjustment Strategies
   Regional Planning Commission of New Orleans
   New Orleans, LA

5. Technology-led Economic Development
   Florida Institute for Human and Machine Cognition
   Pensacola, FL

6. Community and Faith-Based Social Entrepreneurship
   Pyramid Community Development Corporation
   Houston, TX

7. Innovation in Economic Development
   Paulding County Board of Commissioners
   Dallas, GA

APPENDIX B

A list of Planning and Performance Planning awards is available upon request.

Environment and Public Works Committee Hearing
September 9, 2008
Follow-Up Questions for Written Submission
Questions for Erulkar

Questions from:
Senator Barbara Boxer
1. The Inspector General Report of 2007 outlined many concerns about the overall management of programs administered by EDA. What steps are in place to ensure ineffective practices do not continue?

Answer:
The Inspector General's Report of March 2007 discussed problems in the management of one of EDA's programs, the Revolving Loan Fund Program. EDA has implemented five of the seven recommendations from the Office of Inspector General's (OIG) 2007 report. In addition, EDA is nearly finished implementing a sixth recommendation— to determine the status of the 47 Revolving Loan Funds (RLF) not reporting as of September 30, 2005. EDA has reduced the number of non-responsive RLFs from 47 to four and has notified these RLFs of EDA's intent to terminate within the next 30 days. Moreover, EDA has made excellent progress towards implementing a seventh recommendation—developing and implementing a database to manage EDA's RLF portfolio. The system is 80 to 90 complete and is expected to be operational in time for the March 31, 2009, reporting period. In light of the recommendations made by the Inspector General for the RLF program, EDA's 2008 reauthorization bill requested the use of up to two percent of Economic Adjustment Assistance program money, if needed, to supplement S&E for increased management and oversight of RLFs.

Steps in place to ensure effectiveness:
1. Progress lowering excess cash and ensuring that grantees comply with excess cash requirements
In accordance with the OIG's recommendation, EDA has instituted a policy requiring its regional staff to determine the appropriate capital utilization rate for RLFs with a capital base in excess of $4 million, and to document the rationale for this determination in writing.

EDA also created a standard EDA policy for monitoring and sequestering excess cash, and for ensuring remittance of the federal share of the interest on sequestered funds. EDA's regional staff has made tremendous strides in implementing this policy. For the most recent RLF reporting period, which ended March 31, 2008, RLF operators reported nearly $35 million in excess cash eligible to be sequestered. Of that $35 million, EDA regional office staff had verified the sequestration of $33.7 million (96% of the total reported). EDA's Finance and Administration Division verified that the U.S. Treasury received nearly $700,000 in interest payments for EDA RLF sequestered funds for the 11-month period ending August 31, 2008.

2. Progress in training, reporting and oversight

- EDA has provided five training sessions for grantees in partnership with the OIG. This comprehensive training included training on reporting requirements, audit requirements, and excess cash and sequestered funds. More than 600 individuals representing more than 450 RLFs received the training.
- OMB approved EDA's new streamlined, web-based semi-annual RLF Report Form (ED-209). This form was evaluated by two EDA grantees, both of whom indicated that the form would shorten the time to complete the form as well as improve accuracy. OMB-approved Paperwork Reduction Act (PRA) estimates indicate that the new form will cut the burden on an average EDA RLF grantee from 10.34 hours per report filing to 1.95 hours per report filing.
- EDA created an RLF taskforce composed of EDA regional office staff that interact on a daily basis with RLF grantees. EDA has adopted several suggestions proposed by this group, including tying the minimum permissible interest rate to current market conditions to ensure that RLFs maintain their competitive edge.

3. Progress on RLF regulations

EDA has proposed new RLF regulations. Key provisions include:

- Elimination of loan guarantees
- Shifting all RLFs to semi-annual reporting (currently some report annually and others semi-annually)
- Addition of requirement to undergo RLF certification training every 3 years
- Addition of requirement to provide EDA with information on loans in default upon request
- Addition of requirement to have an independent third party conduct a compliance and loan quality review every 3 years

2. The Inspector General indicated there are differences in performance of the various regional offices. As a result, the overall effectiveness of the Revolving Loan Fund (RLF) is questioned. What has been done on a local, regional and national level to address these deficiencies and to prevent them from occurring in the future?

Answer:

EDA has assigned overall responsibility for the program to the Deputy Assistant Secretary for Regional Affairs. A Headquarters program analyst working directly under the Deputy Assistant Secretary is responsible for day-to-day management and coordination of the program, as well as coordinating the work of the RLF taskforce, which was created in the wake of the audit.

This taskforce has developed detailed program and policy guidance to standardize administration of the portfolio across regional offices and to study and disseminate best practices. EDA has provided training on EDA's new standard RLF policies to regional staff responsible for administering the portfolio, and regional staff also participated in single audit training conducted by the OIG. In addition, EDA has increased the number of regional staff with RLF administration responsibilities from six at the time of the OIG audit to 12.

On the local level, the training EDA has provided grantees in partnership with the Office of Inspector General has been very well received. This comprehensive training includes training on reporting requirements, audit requirements, and excess cash and sequestered funds. As of September 10, 2008, more than 600 individuals representing more than 450 RLFs have received the training.

As of the last reporting period, EDA has increased the on-time reporting rate from 50 percent at the time of the audit to 70 percent. EDA is also in the process of terminating all nonresponsive RLFs.

3. In their written testimony, the National Association of Development Organizations (NADO) stated that due to the loss of senior management and program staff at EDA with expertise, it has become increasingly difficult for your agency to provide "necessary oversight, management and program innovations." As a result, they argue, your efforts are no longer cutting edge. NADO is seeking the creation of an RLF Users Advisory Group to assist the agency in strengthening RLF program operations. Would this effort positively or negatively impact the agency's activities?

Answer:
EDA has made significant progress in strengthening the RLF program to meet the needs of the taxpayer and the RLF operator. By the second quarter of FY 2009, the database to manage EDA's RLF portfolio will be up and running. EDA has already created an RLF taskforce composed of EDA regional office staff that interact on a daily basis with RLF grantees. EDA has adopted several suggestions proposed by this group, including tying the minimum permissible interest rate to current market conditions to ensure that RLFs maintain their competitive edge. EDA is committed to frequent communication with the RLF community and believes that interjecting an advisory group into EDA's existing process is not necessary.

Senator Benjamin Cardin

1. What would the administration's FY 2009 funding level request have on EDA's ability to fund projects? What would be the impact terms of jobs created and retained, and private sector funding leveraged if EDA were funded at the President's request?
I noticed that a great amount of the cuts in funding have been to the Public Works Program, and the additional cuts the administration proposes would further reduce this program. Why does the administration continually look to cut this valuable program?

Answer:
The target amount of jobs created with fiscal year 2009 funding for the Public Works program will be at least 6,346, and the target amount of private sector investment generated will be at least $246 million.

In a difficult budget environment, the Administration has made tough choices among competing priorities. Fortunately, EDA has a flexible and scalable nature allowing it to "ramp up" operations, as well as "ramp down" based on available funds.

Public Works is a valuable program, however, it is not as flexible as EDA's Economic Adjustment program, which is designed to respond to sudden and severe economic dislocation, as well as chronic economic distress. Since the Economic Adjustment program provides resources for both infrastructure development and strategic planning, this program responds comprehensively to hurricanes, floods, tornadoes and chronic economic distress in ways that the Public Works program cannot since it is limited to infrastructure investments. We believe that the Economic Adjustment program offers better service for EDA's investment partners.

2. It sounds as though money has repeatedly been taken out of the Public Works Program because it is the easiest place to make the cuts, but would you object to increased funding for the Public Works Program?

Answer:
The Public Works Program is not as flexible as the Economic Adjustment Assistance program, which is designed to respond to sudden and severe economic dislocation, as well as chronic economic distress. As noted above, in a difficult budget environment, the Administration has made tough choices among competing priorities. Fortunately, EDA has a flexible and scalable nature allowing it to "ramp up" operations, as well as "ramp down" based on available funds. The requested level of funding of Public Works is adequate, particularly in view of the substantial level of unrequested supplemental funding provided to EDA in the recent Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009.

3. One of the most pressing issues with the current economy is the availability of credit and financing, which has implications for entrepreneurs and businesses who are struggling to secure traditional bank financing. EDA currently has roughly 600 Revolving Loan Funds that are operated by intermediaries to assist these businesses. How many Revolving Loan Funds has the agency capitalized or recapitalized since 2001? Why has the agency scaled back its investments in this program?

Answer:
Currently, the EDA administers 584 Revolving Loan Fund (RLF) reporting units. RLFs vary in age, with oldest having been established 33 years ago and the newest in response to Hurricane Katrina in 2006. Since 2001, EDA has capitalized or recapitalized 28 RLFs. Two variables affect the number of RLFs capitalized or recapitalized since 2001: competitiveness of the RLF investment vis-à-vis other Economic Adjustment Assistance projects in terms of jobs creation and attraction of private investment; and EDA's sense that it needed to strengthen the RLF program management and oversight before widely capitalizing and recapitalizing RLF programs. We anticipate that the RLF Program is likely to serve as a useful tool in responding to natural disasters that caused sudden and severe economic dislocation in 2008.

4. The administration's reauthorization proposal seeks to divert two percent of its program funds to administer a new Revolving Loan Fund tracking and management program. It is unclear if these funds would be taken from the agency's overall Economic Development Assistance Program (EDAP) account or just from the amount allocated to fund the Revolving Loan Fund program. Can you elaborate on this?

Answer:
There is currently no dedicated source of funding to oversee RLFs. The requested authorization of two percent of funding would allow EDA to use Economic Adjustment Assistance program money to supplement S&E for increased management and oversight of RLFs. The proposed funding of up to two percent for RLF administration would be a proportion of the amounts allocated to the Economic Adjustment Assistance program account, not the total Economic Development Assistance Program appropriation.

More staffing is needed to oversee the RLF reporting, and improve the tracking and management of the new web-based system that EDA expects to deploy in the second quarter of FY 2009. If EDA were to design the RLF program today, we would seek authority to charge recipients separate fees to cover EDA's administrative costs for the program to minimize the cost to the Government. However, EDA has a large portfolio of RLFs on hand (584 active RLFs with a capital base of $849 million), and we have no way of requiring recipients to make such payments retroactively.

5. In addition, it appears the agency is seeking to increase the authorization for its salaries and expenses account. Why is the agency seeking to divert program funds for what is essentially an administrative expense that should come from the agency's salaries and expense account?

Answer:
EDA received a slight increase in S&E funding from the Congress from FY 2007 to FY 2008 that did not fund all of EDA's cost of living adjustments. EDA has never received funds dedicated to the administration of the RLF program. In light of the recommendations made by the Inspector General for the RLF program, EDA is now requesting to use up to two percent of Economic Adjustment Assistance program money to supplement S&E for increased management and oversight of RLFs.

Senator George V. Voinovich

1. Regulations developed by the agency after enactment of the 2004 reauthorization bill revised federal-local match rates for EDA projects. The regulations increased local share requirements based on distress criteria. Why did the administration change the match rates by regulation?

Answer:
Table 1 in EDA's investment rate regulation (13 C.F.R. § 301.4(b)(1)(ii)) provides the maximum allowable Investment Rates for Projects in accordance with certain levels of economic distress in relevant regions. This regulation implements the broad mandate provided in the statute to increase grant rates beyond 50 percent "based on relative need." After enactment of the Economic Development Administration Reauthorization Act of 2004, EDA increased the distress criteria related to the maximum investment rates in order to ensure that allocations of Investment Assistance are targeted to the most economically distressed regions.

2. What would the administration's FY2009 funding level request have on EDA's ability to fund projects? What would be the impact in terms of jobs created and retained, and private sector funding leveraged if EDA were funded at the President's request?

Answer:
The target amount of jobs created with fiscal year 2009 funding for the Public Works program will be at least 6,346, and the target amount of private sector investment generated will be at least $246 million.

In a difficult budget environment, the Administration has made tough choices among competing priorities. Fortunately, EDA has a flexible and scalable nature allowing it to "ramp up" operations, as well as "ramp down" based on available funds.

3. Entrepreneurs and businesses are facing a serious credit crunch, especially in rural and distressed areas where we've lost many local and independent banks. How is EDA using its Revolving Loan Fund or RLF program to help alleviate the credit crunch for local businesses and entrepreneurs? Why has the agency scaled back its investments in this program?

Answer:
The Economic Development Administration makes grants to state, local governments and nonprofit organizations to establish lending programs that make capital available to small businesses in distressed regions at below-market rates or when funds are otherwise unavailable from private lenders.

Impact on credit crunch:

- **RURAL IMPACT:** 64% of EDA's RLF investments from 1996 to 2007 have been in rural areas.
- **BUSINESS IMPACT:** Since 1996, EDA's RLF investments have attracted $727 million in private capital.
- **JOBS:** Since 1996, the RLF program has helped create or retain over 25,000 jobs. *(OUTCOME DATA CITED ABOVE AVAILABLE ONLY SINCE 1996)*

Since 2001, EDA has capitalized or recapitalized 28 RLFs. Two variables affect the number of RLFs capitalized or recapitalized since 2001: competitiveness of the RLF investment vis-à-vis other Economic Adjustment Assistance projects in terms of job creation and attraction of private investment; and EDA's sense that it needed to strengthen the RLF program management and oversight before widely capitalizing and recapitalizing RLF programs.

Senator CARDIN. Thank you very much for your testimony.
Mr. Zinser.

STATEMENT OF TODD J. ZINSER, INSPECTOR GENERAL, UNITED STATES DEPARTMENT OF COMMERCE

Mr. ZINSER. Thank you, Mr. Chairman, Ranking Member Isakson, Senator Inhofe, Senator Bond. We appreciate the invitation to testify today on our oversight of the Economic Development Administration.

EDA is one of six grant-making agencies in the Department of Commerce that together typically dispense between $1.5 billion and $2 billion a year to support a variety of economic, scientific and technological initiatives. In Fiscal Year 2007, EDA grants totaled approximately $250 million.

For the past 7 years, we have focused our work on EDA's two largest programs, grants for public works and the Revolving Loan Fund program. During that period, we audited 50 individual Revolving Loan Funds, and in 2007, issued a report on EDA's overall management of the program. The revolving loan fund program established in 1975 represents a significant Federal investment. EDA estimates there are currently 584 entities operating revolving loan funds with combined portfolios worth approximately $850 million. But at the time of our March 2007 review, staff assigned to monitor and manage the program averaged only one person in each of EDA's six regions.

As part of our 2007 review, we looked at what actions EDA has taken to address the problems we had raised in our audit reports over the years and that EDA had itself recognized. We found that EDA had not made sufficient progress in strengthening management of the revolving loan fund program. Specifically, we found that , No. 1, EDA did not have a useful central data base containing current, accurate information on revolving loan fund balances or an adequate tracking and oversight system, something an EDA task force recommended the agency implement in 1999.

No. 2, recipients were still maintaining excess cash. EDA requires grantees to ensure that a substantial percentage of EDA loan funds, typically 75 percent, is loaned out at all times. We determined that 236 of the reporting funds had a combined total of $70 million in excess cash, roughly $57 million of that amount represented the Federal share. EDA did not have clear guidance for their regions to ensure the revolving loan funds did not accumulate excess cash.

No. 3, the recipients were not meeting reporting requirements. Revolving loan funds are required to file annual or semi-annual reports with EDA. We found that approximately 39 percent of the active funds that had filed reports filed them late. Nearly 40 percent of the late reports were filed more than 90 days beyond the due date. Thirteen percent did not file reports at all. In addition, we found many of the reports that were filed were inaccurate.

No. 4, EDA was not effectively using single audit reports to manage fund assets. We found that nearly 25 percent of 197 grantees had not filed single audit reports. Single audit reports are required by law for revolving loan funds with annual Federal expenditures of $500,000 or more. These audit reports are important oversight

tools and EDA officials should ensure that one, grantees have audits conducted and filed with the Federal clearinghouse, and two, regional staff use the information in the reports to help manage the program.

We recommended that EDA develop a comprehensive strategy and action plan that has specific, measurable goals and milestones built on strong oversight from the top down. In response, EDA developed a 30-point action plan and has met or is making good progress in meeting its milestones.

The most significant outstanding action item is the development and implementation of a central automated data base that provides current, reliable information on the entire revolving loan fund portfolio. Such a data base is under development and is now scheduled to be in place by the spring of 2009. In our view, EDA's new system will be a significant step forward and EDA needs to follow through and make sure it happens on time.

Finally, Mr. Chairman, with respect to our oversight of EDA's public work grants, we have conducted ten audits of public work grants over the past several years. In that same period, we have also conducted several criminal investigations of EDA recipients. Admittedly, our work covers only a very small fraction of the EDA projects across the country. Public works projects account for the bulk of EDA's program spending with more than $2.8 billion in awards for more than 1,000 active grants. While our audit and investigative work is not sufficient for us to project conclusions about the entire portfolio of public works grants, our results do underscore the need for strong oversight of these projects.

Mr. Chairman, that concludes my statement. I would be pleased to answer any questions that you or the members of the Subcommittee might have.

[The prepared statement of Mr. Zinser follows:]

WRITTEN STATEMENT OF THE HONORABLE TODD J. ZINSER
INSPECTOR GENERAL
U.S. DEPARTMENT OF COMMERCE

HEARING ON
ECONOMIC DEVELOPMENT ADMINISTRATION
REAUTHORIZATION ACT OF 2008

BEFORE THE
SUBCOMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE

September 9, 2008

Mr. Chairman, Ranking Member, and Members of the Subcommittee:

Thank you for inviting us to testify today on the Economic Development Administration (EDA) Reauthorization Act and our oversight of EDA's grant programs.

EDA is one of six grant-making agencies within the Department of Commerce that together typically dispense roughly $2 billion annually to state and local jurisdictions, nonprofit agencies, and private firms. These federal funds support a variety of economic, scientific, and technological initiatives to further the Department's mission. EDA ranked third in terms of grant dollars dispensed by the Department in FY 2007—awarding $249 million to support a variety of local and regional development activities (table 1).

Effective grants management has been a long-standing challenge for the federal government because federal grant programs are susceptible to fraud, waste, and abuse if not adequately monitored.

Grant oversight by the Department of Commerce has been a significant, ongoing focus of the audit and investigative work of my office. We are currently conducting an audit of grant oversight activities used by the Department's various grants management offices, including EDA. We expect to issue our report early next fiscal year.

With regard to EDA, our work historically has focused on the agency's two largest programs—Public Works and the Revolving Loan Fund (RLF) component of the Economic Adjustment Assistance program (table 2).

Table 1. Commerce Grant-Making Agencies (FY 2007 Awards)

1. NTIA	$1.01 billion*
2. NOAA	$ 975 million
3. EDA	$ 249 million
4. NIST	$ 196 million
5. MBDA	$ 11 million
6. ITA	$ 9.8 million

*NTIA typically awards approximately $20 million in grants annually. The FY 2007 amount includes $1 billion in 1-year money from the Digital Television Transition and Public Safety Act.

Table 2. EDA FY 2008 Program Budget (in millions)

Public Works	$ 148,050
Economic Adjustment	$ 142,300*
Planning	$ 25,380
Trade Adjustment	$ 14,100
Technical Assistance	$ 9,400
Global Climate Change	$ 9,400
Research	$ 470
Total	$ 349,100

*In recent years, EDA has typically received about $250 million in program funds, including approximately $45 million for Economic Adjustment. The FY 2008 amount includes $100 million from a supplemental appropriation for disaster relief.

Since EDA's last reauthorization in 2004, we have issued 20 audit reports on individual RLFs and public works projects, and have conducted a number of investigations into the activities of individual grant recipients. My testimony today is based primarily on our RLF audit work, which over the years has identified a series of recurring problems in recipients' management of funds and weaknesses in EDA's regional and headquarters oversight of them.

Between 2001 and 2006, we conducted 50 audits of individual RLF recipients to determine whether they were properly managing the loan funds and complying with federal requirements. Some of these audits were requested by EDA, but most of them were initiated as a result of our own surveys of active loan funds. This body of work identified a series of common problems, prompting us to conduct a comprehensive audit of the program. In March 2007 we issued our report on EDA's oversight, monitoring, and management of its entire portfolio of RLFs—estimated to be 607 at the time—and EDA's progress in resolving the problems we had identified in the 50 audit reports on individual recipients. I would like to first share with the subcommittee our findings with regard to the RLF program and then briefly comment on our public works audits and investigative work.

STRONGER MANAGEMENT AND LEADERSHIP BY EDA ARE NEEDED TO CORRECT PERSISTENT PROBLEMS IN THE RLF PROGRAM

The Revolving Loan Fund Program, established in 1975, provides grants to local communities to operate a lending program that offers low-interest loans to businesses that cannot get traditional bank financing. Grant recipients contribute matching dollars to capitalize the funds. As loans made from the original funding pool are repaid with interest and fees, the fund is replenished and new loans are made.

Agencies and organizations interested in administering an RLF must demonstrate that the fund is an integral part of a comprehensive economic development strategy and essential to meeting its goals. The federal interest in the RLF exists as long as either the fund or its assets exist.

The RLF program represents a significant federal investment: EDA estimates there are currently 584 entities operating revolving loan funds, with combined portfolios worth approximately $850 million—or roughly 3.5 times the size of the agency's FY 2008 program budget. Despite these sizable assets, at the time of our March 2007 review, staff assigned to monitor and manage the program averaged only one person in each of EDA's six regions.

Ineffective oversight has been a common finding in our 50 audits of individual grantees conducted since 2001, as evidenced by three persistent problems:

1. ***Grantees retained too much cash in their loan funds***—EDA requires grantees to ensure that a certain percentage of total RLF dollars are loaned out at all times, typically 75 percent. When grantees routinely fail to do so, they accumulate excess cash and are limiting the RLF's potential benefits to the community's revitalization.

   EDA may lower the capital utilization requirements for RLFs that anticipate making large loans relative to the size of their capital base and raise the requirement for funds that have a capital base exceeding $4 million. Determining appropriate utilization rates for larger RLFs is an important part of managing a fund's lending and excess cash status. EDA failed to make such determinations for larger RLF operators we audited: specifically, we identified 23 RLFs that had a capital base of over $4 million, yet EDA regional management had evaluated only 1 of the 23 for a possible adjustment to the capital utilization standard.

2. ***EDA did not ensure that grantees consistently sequestered excess cash***. When a grant recipient fails to meet its capital utilization target for two consecutive reporting periods, EDA may direct the recipient to sequester the excess funds—that is, transfer them to another interest-bearing account and remit the government's portion of the interest to the U.S. Treasury. Recipients must get EDA approval to withdraw sequestered funds. We audited 33 RLFs for evidence of retaining excess cash. Of these, 30 percent maintained excess cash for prolonged periods.

3. ***Grantees did not comply with federal auditing and reporting requirements.*** RLF grantees are required to submit annual or semiannual reports detailing their loan activities, typically within 30 days of the close of a reporting period. It is essential that they submit these reports and do so on time so that EDA can monitor RLF projects and ensure that operators are complying with federal grant terms and conditions. The individual RLF operators we audited often filed reports late or did not file them at all.

   By the same token, regional EDA staff generally did not give sufficient review to the reports that were filed and often did not follow up with nonreporting operators to attempt to obtain their reports. EDA needs to use these reports to more effectively monitor the operations of RLF recipients and better manage the RLF program.

   EDA staff also often did not ensure that eligible RLF operators complied with the Single Audit Act. The act requires RLFs with annual federal expenditures of $500,000 or more to obtain a single audit, prepared by independent auditors, and submit the resulting report to the Federal Audit Clearinghouse—the central

collection point and distribution center for all single audit reports. EDA staff should compare these reports against an RLF's financial reports to look for discrepancies. We found that even when an RLF operator submitted a single audit report, EDA did not use the data it contained to help manage the program.

As part of our 2007 review, we looked at what actions EDA had taken to address these problems. We assessed the effectiveness of the agency's oversight, monitoring, and management of the overall program and of its entire portfolio of RLFs. We analyzed levels of excess cash by reviewing available annual and semiannual reports for all active RLFs in EDA's six regions. We also reviewed the extent to which EDA uses single audit reports to monitor grantees' administration of their revolving loan funds.

Despite the issues consistently raised in our audit reports over the years and EDA's own recognition of serious problems, EDA had not made sufficient progress in strengthening management of the RLF program.

- **EDA did not have a useful central database** containing current, accurate information on RLF fund balances or an adequate tracking and oversight system—something an EDA task force recommended the agency implement in 1999. If EDA had an effective, practical data system that enabled headquarters and regional staff to track the status of individual RLFs and oversee the RLF program, it would have the information it needs to avoid many of the persistent problems we found. EDA did have a limited database that contained some information related to the RLF program, but not of the kind and quantity needed to effectively manage it. The database reflected an individual fund's original capitalization, but it did not track changes that subsequently occur at each RLF, such as income, losses, and securitizations. As a result, EDA managers could not readily determine the current value of the entire RLF portfolio or make timely, informed decisions about recipient capital utilization and excess cash.

  The agency's reported RLF assets at the time of our review were $1 billion. We could only identify assets of $716 million because EDA did not have reports for all the active RLFs. At our recommendation, EDA has since collected all reports and determined that the current value of RLF assets is $850 million. A more sophisticated tracking system coupled with regular RLF reporting will give EDA the comprehensive data it needs to quickly and accurately determine the value of the RLF assets it is responsible for monitoring and to identify some portion of the $150 million still unaccounted for. It will also allow EDA to track the performance of individual loans and to estimate, for the first time, the economic benefits of the RLF program separate from the overall Economic Adjustment Assistance program.

- **Recipients were still maintaining excess cash.** For the period of our audit, we were able to locate reports for 529 of the 607 active RLFs in EDA's database. We determined that 236 of the reporting funds had a combined total of $70 million in excess cash; roughly $57 million of this amount represented the federal share (table

3). The actual amount was likely higher because 78 RLFs had not filed financial reports and we therefore could not ascertain their fund balances.

For the RLF program to achieve its goals, the money it provides needs to be used to make appropriate loans and not allowed to sit inactive for extended periods in the recipients' bank accounts.

Table 3. RLF Excess Cash and Fund Balance at September 30, 2005

EDA Regions	Number of RLFs with Excess Cash	Total Excess Cash	Federal Share of Excess Cash	Total # RLFs that Filed Reports	Fund Balance	Federal Share of Fund Balance
Atlanta	43	$10,922,618	$8,494,863	90	$133,978,891	$107,244,424
Austin	24	3,430,517	2,920,681	43	41,926,748	35,816,330
Chicago	48	11,494,903	8,929,075	97	119,469,401	85,761,298
Denver	28	2,136,991	1,574,862	92	72,037,693	52,395,068
Philadelphia	48	18,986,483	13,680,418	121	216,523,437	158,158,316
Seattle	45	23,304,476	21,009,876	86	132,010,858	105,131,605
Total	236	$70,275,988	$56,609,775	529	$715,947,028	$544,507,041

One of the reasons cited by some EDA staff and RLF administrators for the high amounts of excess cash is that when commercial lending rates are low, as they were at the time of our audit, EDA's required minimum 4 percent interest rate may not be acceptable to potential loan recipients. Excess cash may then accumulate because the RLF cannot make loans at attractive rates. We did not evaluate whether the interest rate requirement has been a factor in a loan fund's excess cash status. EDA has informed us that it is considering ways to make this requirement more flexible. Beyond that, the agency needs to determine the range of factors that contribute to the excess cash problem and address them accordingly.

- **EDA was not sequestering the bulk of eligible funds.** We found that EDA did not have clear guidance, and EDA regions had inconsistent practices for sequestering excess funds. For example, the Austin regional office sought to terminate RLFs that reported excess cash for two consecutive reporting periods rather than sequester the funds. Atlanta based its sequestration decisions on such factors as a fund's lending plans and the local economic environment, in addition to consistent excess cash balances. At the time of our review, RLFs in five of the six regions were carrying $59 million in excess cash (Chicago was excluded from this calculation); $44 million of this amount was eligible for sequestration but only $15 million had actually been sequestered (table 4). The portion of eligible funds that was not sequestered cost the federal government approximately $1 million in interest payments that under current regulations should have been returned to the Treasury.

Table 4. Excess Cash Sequestered (as of September 30, 2005)

EDA Regions[a]	Excess Cash Amount 9/30/2005 $ (millions)	Amount Eligible for Sequestration	Sequestered Amount 09/30/2005
Atlanta	$10.9	$ 9.3	$ 1.8
Austin	3.4	3.2	.0
Denver	2.1	1.6	.0
Philadelphia	19.0	10.4	10.5
Seattle	23.3	19.9	2.3
Total	$58.7	$44.4	$14.6

[a]Chicago was judgmentally excluded from this calculation.

- **Recipients were not meeting reporting requirements.** We found that all EDA regional offices had problems obtaining required reports (table 5). Approximately 39 percent of the active RLFs that had filed reports filed them late for the period we examined. Nearly 40 percent of the late reports were filed more than 90 days beyond the due date. Thirteen percent did not file reports at all. In addition, we found many of the reports that were filed were inaccurate. The regions differed in their practices for and attention to monitoring grantee compliance with reporting requirements, and headquarters did not enforce a consistent approach. Without current, accurate reports, EDA managers lack the information they need to make timely and informed decisions about a fund's capital utilization and excess cash, the agency risks losing accountability for RLF assets, and there is greater opportunity for waste, fraud, and abuse of federal dollars.

Table 5. Status of Grantee Reports Due September 30, 2005

EDA Regions	Reports Due	Number Not Filed	Percent Not Filed	Reports Filed	Number Filed Late	Percent Filed Late
Atlanta	90	0	0	90	30	33
Austin	43	0	0	43	13	30
Chicago	107	10	9	97	36	37
Denver	94	2	2	92	23	25
Philadelphia	178	57	32	121	43	36
Seattle	95	9	9	86	60	70
Total	607	78	13	529	205	39

EDA was not effectively using single audit reports to manage RLF assets. We queried the Federal Audit Clearinghouse to determine whether the required audit reports were filed for three of the six EDA regions. We found that nearly 25 percent of the 197 eligible grantees had not filed these reports for the period of our review. Single audit reports contain information that enables EDA to ensure recipients have appropriate internal controls for safeguarding federal funds and that they are using funds in accordance with grant terms and conditions. They are a good management tool, and EDA officials should therefore ensure that grantees have the audits conducted and file them with the clearinghouse, and that regional staff use the information in the reports to help manage the program. Having said

that, we note that at the time of our review, EDA had an average of only six staff assigned to monitor the 607 active RLFs.

RECOMMENDATIONS TO IMPROVE THE RLF PROGRAM FOCUS ON COMPREHENSIVE, TOP-DOWN MANAGEMENT REFORMS

Our 2007 audit findings indicated that many of the problems with the RLF program were rooted in lax EDA leadership and management attention to the program for at least as far back as our audit work extends. Simply put, the RLF program had insufficient staff devoted to monitoring, and there was no official with direct responsibility for the program. Our primary recommendation to EDA was to develop a comprehensive strategy and plan that has specific, measurable goals and milestones and is built on strong oversight from the top down. In our view, EDA needed to vest responsibility for oversight and the program's successes or failures in a senior agency official who would ensure that staff at each level in the RLF management chain is held accountable for specific outcomes and performance measures that target the program's known problems and issues.

EDA's action plan, submitted in May 2007 in response to our report, made this recommendation a priority. The agency has since given the director of the Office of Regional Affairs responsibility for monitoring the program, implementing the action plan, and meeting the milestone dates for EDA's 30 proposed actions. The Office of Regional Affairs is responsible for all appropriated funding including Economic Adjustment Assistance, under which the RLF program operates.

Another of our recommendations addressed in the action plan is that EDA promptly develop and implement an automated tracking system that provides current, reliable information on the entire RLF portfolio, such as original capitalization data for individual RLFs, as well as any subsequent award amendments, deobligations, terminations, and other changes in fund balances. In addition, it should track grantee reports due and EDA's steps to enforce compliance with reporting requirements.

A web-based management/reporting system is under development and EDA officials expect the system to be in place by March 2009. In the interim, EDA has implemented a limited database that tracks grantee reporting and sequestration data.

Our work highlighted the need for EDA to develop guidance to ensure greater consistency among the regions in enforcing RLF requirements. At a minimum, regional staffs need to ensure that grantees keep required amounts of capital loaned out; submit accurate, timely financial reports; and undergo single audits. They must sequester excess cash that sits in loan funds for longer than permissible. And they should recommend terminating funds that do not meet requirements or do not fulfill the economic development goals envisioned. Finally, they need to be trained on how to use single audit reports and other available tools to properly monitor RLF recipients in their jurisdictions.

EDA's action plan addressed each of these concerns. To date EDA has completed new guidance for determining appropriate capital utilization rates and sequestering excess cash; revised performance plans for regional staff that contain measurable RLF oversight metrics; and conducted training for EDA staff in all six regions as well as for RLF grantees. My office participated in the training efforts by conducting sessions on Single Audit requirements for EDA staff and RLF administrators.

EDA has also assigned an additional RLF staff person to five of the regions. Once the automated tracking system is operational, however, EDA should reevaluate its staffing needs to ensure sufficient oversight of the program to include enforcing reporting requirements and thoroughly analyzing the reported information so it can be used to better manage the RLF program.

OUR CRIMINAL INVESTIGATIONS AND AUDITS OF PUBLIC WORKS GRANTS UNDERSCORE THE NEED FOR CLOSER EDA SCRUTINY

I would now like to briefly discuss some of the issues we have noted in our audits of public works projects and criminal investigations of grant recipients.

Public works projects account for the bulk of EDA's program spending, with $2.86 billion in awards for 1,050 active grants. Public works grants fund projects intended to upgrade an area's economic infrastructure—they may be used to build new roads, enhance water or sewer systems, refurbish commercial facilities, or support a variety of other redevelopment projects intended to expand a region's existing economic base or attract new industry. These are multimillion-dollar projects, and the government's investment in them is sizable.

We have audited 10 public works projects with a total value of $45 million since EDA's 2004 reauthorization. This number represents only a small portion of its public works portfolio, and we initiated many of these audits at EDA's request. So while we cannot generalize our findings, the issues we identified are worth noting.

We questioned significant costs and identified funds to be put to better use of $13 million because of various violations of EDA grant requirements, such as financial accounting irregularities, conflicts of interest, and improper procurement procedures. Four of the10 projects were never completed.

- For example, our audit of a $6.7 million project that was intended to develop a technology park and learning center disclosed the county failed to carry out numerous responsibilities, could not finance the local share, and did not provide the necessary engineering supervision. More than a year after the grant had expired, the park remained without water and other infrastructure and had no prospects for use. We questioned all claimed costs, pending EDA's valuation of the completed portions of the project. EDA ultimately disallowed $1.9 million in claimed costs and sought to recover the federal share of $900,000.

- Our audit of a $2.3 million grant awarded to a city for infrastructure improvements to a proposed industrial park questioned all claimed costs and recommended termination of the project. The city's violations included awarding a subgrant for project management to a for-profit developer, failing to ensure full and open competition in procuring materials and services, and allowing conflicts of interest—the developer, as project manager, executed contracts with a company he controlled and with a firm owned by his son-in-law.

- Our audit of an $8 million EDA grant for construction of a 40,000 square-foot business incubator resulted in termination of the project after we found the grantee was on the brink of insolvency and had used the grant funds to stay afloat. At our recommendation, EDA directed repayment of $2 million in grant funds that had been dispersed for construction.

- Our investigation of an RLF established in 1985 with a $500,000 EDA grant found that four of the RLF's administrators had over the years been using the funds from this and other federal programs to compensate themselves as "consultants," to make rent payments for property they owned, and to finance extravagant trips. They were convicted in 2004 and ordered to pay restitution and fines totaling nearly $1.7 million. Two of the defendants were sentenced to 41 months' in prison.

- Another case involved a director and assistant director of a community development corporation administering an RLF, who made nearly $500,000 in unauthorized loans to themselves and to businesses they operated or controlled. They also paid themselves approximately $400,000 in fraudulent wages. They authorized the salary checks with the signature stamp of the corporation's secretary-treasurer. The two were sentenced in 2005—the director received a 2-year prison term and was ordered to pay restitution of nearly $500,000. The assistant director received 36 months' probation and a $5,000 fine.

Mr. Chairmen and Members of the Subcommittee, this concludes my statement. I would be happy to answer questions at this time.

Questions from Senator Barbara Boxer

1. According to your testimony, Economic Development Administration (EDA) "grantees did not comply with federal auditing and reporting requirements" and the EDA regional offices did not give sufficient review to reports that were filed by grantees. Do you believe that there is sufficient staff at the EDA to properly perform adequate oversight of its grantees? What impact will the inability of EDA staff to provide this oversight have on the Revolving Loan Fund?

In response to our report recommendations, EDA is developing a new automated tracking system that, according to its management, will contain all of the information RLF staff will need to exercise sound fiduciary oversight of the portfolio. This centralized, web-based management reporting system, expected to be complete by March 2009, will assist RLF staff in tracking the receipt and accuracy of the required reports and will also include automated tools for RLF assessment and analysis. In our view, it is not necessarily the size of the staff but the priority EDA management places on the work performed by the staff and the guidance and tools, such as the automated tracking system, that will be the key to exercising the necessary oversight of the RLF.

In March 2007 we issued our report on EDA's oversight, monitoring, and management of its entire portfolio of RLFs, and EDA's progress in resolving the problems we had identified in the 50 audit reports of individual recipients conducted beginning in 2001. Our 2007 audit findings indicated that many of the problems with the RLF program were due to the lax EDA leadership and management attention to the program.

We recommended EDA vest responsibility for oversight and the program's successes or failures in a senior agency official who will ensure that staff at each level in the RLF management chain is held accountable for specific outcomes and performance measures. EDA has since given the director of the Office of Regional Affairs the responsibility for monitoring the program. Finally, EDA has developed guidance to ensure greater consistency among the regions in enforcing RLF requirements.

2. What measures has EDA taken to ensure its grantees are complying with the Single Audit Act? What is the risk if the grantees are not complying with this requirement?

In response to our 2007 audit report, EDA, working with my office, has developed training on the review of single audits and their use as a tool for managing the RLF program. EDA has also instituted a process to routinely query the Clearinghouse to verify submission and to retrieve copies of the reports for review and analysis. When an RLF recipient fails to file the required single audit report, it impairs EDA's ability to properly manage the RLF program. Single audit reports can provide information about the financial health of the organization, poor management practices that affect its ability to

manage federal programs, and internal control weaknesses that may result in the misappropriation of federal funds.

EDA has the responsibility to insure that its grant recipients comply with the Single Audit Act. The Act requires that recipients having annual federal expenditures of $500,000 or more obtain a single audit, prepared by independent auditors, and submit the resulting report to the Federal Audit Clearinghouse. After our 2007 audit, EDA sent letters to all RLF administrators reminding them of the requirements of the Single Audit Act and their responsibilities to comply with these requirements. As a follow-up to these letters, EDA included a single audit training segment in its 2008 regional training sessions provided to RLF administrators. My staff participated in each of these training sessions.

3. Given the current funding levels of EDA, in your opinion, can it adequately perform its function of providing grants and then monitoring the grant's effectiveness?

As we stated in our response to question 1, it is not necessarily the size of the staff but the priority EDA management places on the work performed by the staff that determines whether it can effectively monitor its own grants. There are two primary ways EDA staff can provide oversight and obtain information about grant and cooperative agreement performance. The first is a desk review process whereby reports submitted by the grantee, including technical performance and financial reports are analyzed by EDA staff. Second is on-site monitoring that includes visits to the grantee's location, observation of the activities and interviews with the grantee's staff.

In our view, the automated tracking system being implemented for the RLF program will assist in the desk review of this program. However, for the public works program EDA has limited ability to make routine site visits. While we have not done an audit in this area, we have observed that that the number of professional engineers working for EDA has decreased over the years diminishing EDA's ability to perform on-site visits of construction projects. One option the Congress may want to consider, to increase EDA's ability to perform on-site review of its grantees' projects, is to authorize EDA to use some of its program funds to hire independent engineers to inspect construction projects. This is a model that has worked well, for example, at the Federal Transit Administration for the construction of subway and light rail projects. .

My office is currently conducting an audit of the oversight activities related to fraud detection and prevention employed by the Department's various grants management offices including EDA. We are analyzing whether the activities used by the grants offices are consistent with the Department's own policies for monitoring grants and cooperative agreements and the President's Council on Integrity and Efficiency's best practice guide. We intend to issue our report early in 2009.

4. What impact will the failure of grantees to provide reporting requirements and EDA's inability to evaluate those reports have on the overall stability of the program? Are there measures EDA can take to improve reporting and oversight?

Without the required reports, EDA lacks critical information needed to make timely and informed decisions about a fund's capital utilization and excess cash, and risks losing control of RLF assets. There is also a greater opportunity for fraud, waste, or abuse of federal dollars. EDA agreed with our report recommendation and promptly developed a centralized electronic RLF reporting, tracking, and monitoring system. The system, when fully operational in 2009, will maintain current information for all RLFs, as well as information about their original capitalization. We have been told it will track grantee compliance with reporting requirements and EDA action taken to obtain grantee compliance. This should help improve reporting and oversight of the RLF program.

EDA regulations require RLF recipients to submit semiannual reports on their operations. It is essential that RLF operations submit these reports on time so EDA can use them to manage funds in accordance with the recipients' RLF plans and agency requirements.

5. What measures has EDA taken to ensure adequate oversight of Public Works grants?

A critical challenge EDA regional offices face in monitoring public works projects is the limited resources devoted to onsite monitoring. EDA regions are currently staffed with a few professional engineers who typically oversee their office's public works projects and provide expert analysis of construction-related issues, including the reasonableness of costs. An engineer rarely makes site visits to ensure that projects are proceeding according to their agreed upon plans. Instead, the agency places heavy reliance on supporting documentation, which is sometimes limited, written and verbal assurances from the grantees, and certifications from grantee-procured architectural engineering consultants or construction managers.

EDA also strives to have good communication with the grantees by providing written guidance and requiring a conference with them prior to the start of a project to go over EDA's requirements and expectations. Unlike other grant making organizations within the department, EDA's grants officers are the regional directors, who are also its program officials. Consequently, EDA does not suffer from poor communication between the two functions that could result in miscommunication with the grantee.

Questions from Senator Benjamin Cardin

1. Mr. Zinser, in your testimony you say that "the RLF program had insufficient staff devoted to monitoring and there was no official with direct responsibility for the program."

How many staff Full Time Employees does the agency have in place (both in its headquarters office and in the six regional offices) today to administer the RLF program compared to the numbers in 2001?

EDA has doubled the staff assigned to work on the administration of the revolving loan fund program from 6 to 12 since we issued our audit report in March 2007. The RLF program represents a significant federal investment: EDA estimates that there are 584 entities operating revolving loan funds, with combined portfolios worth approximately $849 million. Despite these sizable assets, at the time of our audit, we found that staff assigned to monitor and manage the program averaged only one person in each of EDA's six regions. We do not have data on the number of staff that worked on the RLF program in 2001.

2. It is the committee's understanding that EDA has been reluctant to capitalize and recapitalize Revolving Loan Funds in recent years. Do you think that is a function of reduced funding overall for the Program? Has the lack of available Headquarter and field personnel to manage the program contributed to this?

We have not done any audit work that gives us a definitive answer to why EDA has not capitalized or recapitalized revolving loans in recent years. Several reasons have been suggested for EDA's reluctance including 1) there is no need for additional loan money as evidenced by the number of current funds that have excess cash, 2) administering and monitoring the RLF funds is very time and resource intensive, and 3) reduced funding has resulted in EDA making some difficult choices on how its funding can be used to meet its mission. We can not say definitively which one of these reasons or other possible alternative explanation may be the correct answer.

EDA's own testimony before the committee may provide the best answer to this question. According to Deputy Assistant Secretary Erulkar, the RLF program is a large and unique component of EDA's program portfolio. With 584 separate RLF operating units managing assets of over $849 million, dealing with the RLF program overall, capitalizing funds, and administering and monitoring loans requires special attention to keep it operating effectively. EDA's own reauthorization legislation shows that EDA believes that it needs additional resources to manage the RLF program. The reauthorization legislation seeks to allow the agency to use 2 percent of its annual Economic Adjustment Assistance program appropriation for the new revolving loan fund tracking and management program.

3. I understand the EDA field offices routinely seek the IG's help in auditing projects that they are concerned about. While this is laudable, is it really the IG's job or are you being asked to provide the oversight that an adequate staffed EDA should be providing itself?

Oversight of grants must be the responsibility of the grant-making agency. While periodic audits of grantees by the OIG is a good practice and has been successful at the Department of Commerce, the program office must be the first line of defense in ensuring that grant funds are being used effectively. Soon after my appointment, I initiated a department-wide audit of grant oversight and monitoring activities related to fraud detection and prevention. Our analysis includes comparing the actual practices of the program and grants offices to the Department's policy and to the President's Council on Integrity and Efficiency's best practice guide. We intend to issue the report early in 2009.

Our Offices of Audits and Investigations appropriately provide assistance to EDA when there is a need for additional action that cannot be taken through established grant oversight mechanisms. We conduct audits and investigations related to financial assistance awards. In addition, we participate with EDA management in the resolution of audits conducted on its cooperative agreements both by our auditors and on findings reported on audits conducted in accordance with the Single Audit Act. We also provide guidance about audit related matters to EDA when requested.

4. What metrics does EDA use to determine not simply the compliance with the Revolving Loan Fund reporting requirements, but also the effectiveness of the Program? How do we determine how well the loans are performing?

As a result of our 2007 audit, EDA added two performance metrics to its Balance Scorecard program. First, EDA plans to measure the percent of RLF units adhering to current operational and policy guidance including reporting on time, submitting an audit on time, and compliance with cash sequestration and submission of interest payments. Second, EDA plans to measure the percentage of RLFs with default rates above 15 percent that have approved corrective action plans, or have been reviewed and determined that no corrective action plan is required. These two metrics have just been added to the scorecard this year so there is no information available on the RLF administrator's performance at this time.

EDA's performance goals include program activities associated with its Public Works program and the Economic Adjustment Assistance program including the Revolving Loan Fund. EDA's performance targets long term program outcomes based on nine-year projections for private dollars invested and jobs created and retained. This consolidated information is reported in the Program Assessment Rating Tool (PART) analyses and used in the annual budget submissions to the Secretary, OMB and Congress. Specifics about the performance of the RLF program are not reported separately but could certainly

be obtained from EDA. We have performed no separate audit work to substantiate any of these performance results.

Questions from Senator George V. Voinovich

1. Regulations developed by the agency after enactment of the 2004 reauthorization bill revised federal-local match rates for EDA projects. The regulations increased local share requirements based on distress criteria. Why did the administration change the match rates by regulation?

2. What should the administration's FY 2009 funding level request have on EDA's ability to fund projects? What would be the impact in terms of jobs created and retained, and private sector funding leveraged if EDA were funded at the President's request.

3. Entrepreneurs and businesses are facing a serious credit crunch, especially in rural and distressed areas where we've lost many local and independent banks. How is EDA using its Revolving Loan Fund or RLF program to help alleviate the credit crunch for local businesses and entrepreneurs? Why has the agency scaled back its investments in this program?

The scope of our audit work did not provide us with the information necessary to answer the Senator's inquiries. However, we have been told by Committee staff that EDA has been asked these same questions. In our opinion, EDA officials are the best source for the information being requested.

Senator CARDIN. Again, thank you for being here today.

Mr. Secretary, I would like to get your assessment. We are going through high levels of unemployment, highest in at least recent years. The challenges for communities to find funds in order to move forward on economic development programs are becoming more difficult with local budgets, particularly. The credit problems, we know what just happened recently with the takeover of Fannie Mae and Freddie Mac, and the credit issues are difficult, so the revolving funds become even more important as it relates to those entities that otherwise could not get the capital they need for business expansion.

Do you share the view that the EDA programs are even more important today because of the current economic conditions?

Mr. ERULKAR. I do share the view that EDA programs continue to be vitally important and that is why we make the statement today that it is vitally important to reauthorize EDA. Anticipating your next question, in terms of the current problems that our economy is confronting today, EDA is not a short-term stimulus agency. We recognize these issues and we incorporate them into our strategic investment plans that go out a number of years.

So the funds that we invested today will not even begin to show results until three or six or 9 years down the line. That is when we do our reporting of them. I do share your view that EDA is vitally important for our economy.

Senator CARDIN. And you point out that you are leveraging 33 to 1, I think the number I used for Maryland was 28 to 1. But impressive numbers that you are leveraging in private capital. And your strategic plan, I take it, is based upon the funds that have been made available to Congress, by Congress.

Mr. ERULKAR. Our strategic plan goes out for 3 years. So we have a limited window. In fact, actually it is the basis for our budget call. So we look at the economic conditions in each of our service areas in developing the projected demand for EDA programs.

Senator CARDIN. So let me get to the part of your statement with which I strongly disagree, and I think there is bipartisan support for my position. This program has been supported in the Appropriations Committee and the Authorizations Committee. Actually, the Authorizations Committee at a $500 million level. The appropriators have consistently appropriated about $280 million, which has not been on a partisan basis.

And yet you are defending a cut to $133 million, if I understand correctly, most of the money would come out of the public works side of it, in your strategic long-term plan. I don't understand that. Maybe you can try to help enlighten me as to why you believe a program that you tout as being so successful, that depends upon getting capital out in the community, should be cut by that number.

Mr. ERULKAR. There is no doubt that the budget numbers proposed by the Administration will result in fewer projects being invested. However, this is a very tough budget environment all around. The Department and the Administration have been forced to make some very difficult choices in crafting its budget proposal. EDA is a scalable agency. That is to say, it can operate on widely varying levels of program appropriations. Given competing prior-

ities, the decision was made to ramp down slightly EDA for the forthcoming year, while preserving its institutional capacity fully so that it can be ramped up by future Administrations.

Senator CARDIN. Well, that is not slightly, that is a significant reduction. I feel more comfortable if you do what we all do, just blame OMB rather than—your programs are vitally important. We know that. And we know that this type of cut would be extremely damaging and would take away a lot of capacity. The Inspector General's report is very serious. I have read this report, these are very serious issues. We have money sitting around that could have been put back into the community, perhaps create more job opportunities and could be put to the use that Congress intended. We are not exactly clear of the status of some of these funds as far as the value of some of the assets that are in there.

As I read it, it seems like at least one of the concerns is that perhaps you don't have the personnel to properly do this, the number of people. I don't know. So I see from your testimony that you have responded and accepted the Inspector General's report. Let me just ask the Inspector General, if I might, are you satisfied with the replies that you have gotten from the agency in regard to the recommendations that you have made?

Mr. ZINSER. Yes, sir. My take on the agency's response to our 2007 report is that it was a sea change in how EDA responded to our previous audit findings. I think they are taking the report seriously. They did jump on the recommendations. They did develop their action plan and they have made significant progress on it.

Senator CARDIN. Thank you.

Senator ISAKSON.

Senator ISAKSON. Thank you, Mr. Chair.

Following up on that, your IG report, one of the things that was pointed out was maintaining excess cash in reserve for long periods of time rather than ensuring the funds were being utilized to make loans as required. Would you elaborate on that just a little bit, what you meant by that?

Mr. ZINSER. Yes, sir. Once the revolving loan funds are capitalized, EDA requires that a substantial portion of those funds, typically 75 percent, are always out on the street working. And what we found when we went out and audited these revolving loan funds is that in many cases, they had excess cash that was not being loaned out.

And I am not entirely clear on why that happens. I think there is a variety of reasons. One of the things I would do is try to find out what the various factors are. Some have been suggested to us.

But when the cash sits in the account of the revolving loan fund and earns interest, then the revolving loan fund can use that money that they earned for operating expenses. And I think that is one of the reasons why excess cash may sit around. So EDA has certain tools that they can use to incentivize, so to speak, the revolving loan fund to move that money. I think there is some work to be done on improving that situation.

Senator ISAKSON. Mr. Secretary, as a former developer, many loans are staged in their funding. You don't deploy all the cash upon the origination of the loan, but it is staged and conditional.

I would guess the revolving loan fund works that way, is that correct?

Mr. ERULKAR. I believe that is correct, the scheduled disbursements.

Senator ISAKSON. So was it the interest earned on the money that was the inducement to have more in reserve, or were you just holding in reserve money for future commitments that had been made but not yet funded?

Mr. ERULKAR. Well, it is the RLF itself that is withholding the money. It is not EDA. We invest in the fund, we fully capitalize it. The question is how efficiently do they use it.

Mr. ZINSER. If I could just add, the calculation on excess funds includes the type of scheduling that you are referring to. This is above and beyond the normal——

Senator ISAKSON. This was over and above the retained funds for future deployment based on commitments that had already been made?

Mr. ZINSER. Yes, sir.

Senator ISAKSON. OK.

Mr. Secretary, in my State of Georgia, we have a county known as Sumter County. It is where Americus, Georgia is. It has a hospital, Sumter Regional Hospital, which was completely destroyed by a tornado. This is a huge hospital that serves 17 rural counties in Georgia, as well as a significant part of the downtown business district was destroyed in its entirety. Many of the doctors have left to go to other hospitals. The community is in dire need of a lot of help, which I am trying to give them. One of the things they are seeking is emergency funds through EDA. And it is my understanding they have requested, through the Atlanta office, a statement of eligibility or determination of eligibility for them to participate in your disaster funds. Atlanta has told them they are waiting to hear from Washington as to whether or not Sumter County would be eligible.

So my request is, if you would followup on that for me and see what the Atlanta EDA office, and if there is anything EDA can do to get the information to Sumter County and Americus as to what they would need to do to be able to qualify, I would greatly appreciate it.

Mr. ERULKAR. I will certainly followup on that. And I will say that EDA has acted pretty quickly to allocate funds from the $100 million supplemental that it received in late June. Our Atlanta regional office received around $9 million of that $100 million for FEMA disaster-declared areas within its service area. So I will certainly followup to determine the status of that.

Senator ISAKSON. I would appreciate it very much.

And just out of curiosity, do you know what the mix is between the funds you deploy, urban versus rural?

Mr. ERULKAR. Yes. We have a historic commitment to maintaining our presence, our investment presence in rural America. The most recent funds I have for construction projects last year indicate that a majority of EDA's construction funds were invested in rural areas, upwards of 63 percent. I would be happy to get back to you with more detailed figures on that. But EDA's commitment to effective investments in rural America remains unchallenged.

Senator ISAKSON. Thank you very much for your testimony.

Mr. ERULKAR. Thank you.

Senator CARDIN. Senator Inhofe.

Senator INHOFE. Mr. Secretary, I don't have any specific requests on followup. It has been working very, very well. You hear so much criticism of Government in general, EDA has been, I think, has historically been operating very, very well.

Something that Senator Isakson just asked about, rural versus urban, I don't know what the ratio is, I had to ask my staff, almost all of ours in Oklahoma is rural. We have a couple of projects, but it is probably, I would say, ten to one. And that might be indicative of, representative also of some of the rest of the States.

In my opening remarks I talked about my strong feelings as to why this reauthorization should take place before adjournment. And I know that you are nodding in agreement, as is I think everyone at this table up here, Democrats and Republicans. Let me just ask you one question. Tell me, what would be the consequences of not doing it before adjournment?

Mr. ERULKAR. I think the main consequence would be, honestly, a message of uncertainty about the Government's commitment to putting best practice economic development tools in place in the distressed areas of America that need them most. That is, I think, the real consequence.

My unvarnished opinion is that given what EDA does, it should be, in our Government, a no-brainer to reauthorize it, given its results, given the reaction of the communities that they have in receiving our investments, in putting together effective projects that build economic prosperity. I think that the message of uncertainty would leave a real question mark about Government's commitment to this kind of program, especially given the change of Administration.

Senator INHOFE. The uncertainty is a concern that we would have. I know in my State of Oklahoma, we had one case where the application was made, I won't mention it, I wouldn't want to do that because it would be pointing fingers, but the application was made, and then the money, when it came in, was going to be used for a different purpose. And we turned it around and returned it. Because to me, the integrity of something that is working well is important to protect. I would hate to go back to southern Oklahoma and some of the areas that were previously pretty impoverished parts of the State and tell them that the program that they are probably most proud of, of everything that the Government does, is not reauthorizing. It would be very hard to sell. So we will work together to try to make that happen.

I don't have any more questions.

Senator CARDIN. I have one or two more questions, then if my colleagues have some additional questions, they will have an opportunity to ask them.

Mr. Secretary, the Administration's reauthorization program seeks to divert 2 percent of the program's funds to administer a new revolving loan fund tracking and management program. Could you clarify whether those funds would come out of the EDA program or would they come out of the revolving fund? How do you anticipate that operating?

Mr. ERULKAR. The 2 percent of funds for administration of the RLF program would come out of the Economic Adjustment Assistance program appropriation. I will underscore that those funds for administration are needed because of the unique nature of the RLF program within EDA. There are 584 separate RLF operating units today that manage over $849 million of assets. The program itself, capitalizing funds, administering and monitoring loans, is just a different and fairly large animal within EDA's program portfolio. We need those extra resources to devote the special attention that the program requires to keep it operating effectively.

Senator CARDIN. And you are seeking increased authorization for salaries and expenses accounts. Is that consistent with what you just said or is that a separate area that you are asking for additional funds? And where do those funds come out of?

Mr. ERULKAR. The salary and expenses budget request of the Administration is a separate account from the Economic Adjustment program account.

Senator CARDIN. So you are seeking additional administrative support there, also?

Mr. ERULKAR. Our budget request for 2009 is level with that of 2008, the amount appropriated in 2008. That is $30.8 million.

Senator CARDIN. So you are not seeking additional funds for salaries?

Mr. ERULKAR. No, sir.

Senator CARDIN. I have no additional questions. Senator Isakson?

Senator ISAKSON. No further questions, thank you.

Senator CARDIN. Senator Inhofe, any additional questions?

Senator INHOFE. No, thank you.

Senator CARDIN. Thank you very much.

We will now turn to our second panel. We are pleased to welcome Secretary David Edgerley, who is the Secretary of the Maryland Department of Business and Economic Development; Leanne Mazer, the Executive Director of the Tri-County Council for Western Maryland, on behalf of the National Association of Development Organizations; and Hon. Larry Thoma, Mayor, city of Elgin, Oklahoma. We are particularly pleased to have all three of you here, but I am particularly pleased that two of my fellow Marylanders are on this panel. They both have a distinguished record. Secretary Edgerley is our principal economic person for Maryland under the O'Malley administration, does a great job. And Ms. Mazer, who comes from the western part of our State, one of the most beautiful spots, that has benefited greatly by EDA partnerships.

It is a pleasure to have all three of you with us today. Mr. Mayor, you have been acknowledged by Senator Inhofe, it is a pleasure to have you with us here today.

We will start with the Secretary. Mr. Secretary. Your statements will be included in their entirety in the record.

STATEMENT OF DAVID W. EDGERLEY, SECRETARY, MARYLAND DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

Mr. EDGERLEY. Thank you very much. Good morning again, Chairman Cardin, Senator Isakson and distinguished members of the Subcommittee.

I would just like to say that I am particularly and personally honored to have been asked to be with you today to offer my perspective in the Economic Development Administration and what the assistance has meant to not only all of Maryland, but more particularly the distressed communities in areas of Maryland. Most importantly, I would like to express my full support for the reenactment at the level that is supported by my colleague, Leanne Mazer, and the National Association of Development Organizations. I think we will talk about that a little bit.

But just in the last 5 years, I can let you know that EDA has approved investments in Maryland which totaled well in excess of $13 million, leveraging a quarter of a billion dollars in private sector investment and thousands and thousands of jobs for Marylanders that don't just speak to the numbers. If you think about the areas that these jobs reside in, those areas sometimes of geographic isolation, of histories of losing significant portions of the employment infrastructure to foreign competition, product obsolescence and the lack of reinvestment in major plant and equipment by American industry, I think EDA offers a remarkable kind of foundation in its efforts to rebuild and jump start those areas needing a nimble agency's help more than others.

There are phenomenal numbers and there is concrete evidence, I think, that EDA has done a good job, continues to work with important communities throughout the Nation and creates jobs, boosting local economic vitality. I really commend the work that they have done.

In my brief time with you this morning, I would like to share with you my personal experience with EDA on a couple of projects. And I stand ready to answer any questions that you might have.

But I would like to start with an event, many years ago, as a young professional leaving college, working in the middle of Appalachian Maryland, as an employee of a community action agency with all of 6 months' tenure, I wrote my first grants under Title 10 of the Job Opportunities Program with EDA, which put essentially 1 percent of the people that were unemployed at the time back to work for a year. I saw first-hand the value of creating each and every job and why it was important to families that needed help so desperately.

We also had experience in the early days of revolving loan funds, and I would offer that in revolving loan funds, having a cash balance is a good thing, that you have money to lend in important times of heightening credit issues with financial institutions that it is nice to have money to lend so that you don't have to wait for payments to be made before new loans can be put out.

EDA invested in six of the seven business parks that are within the boundaries of Allegany County, where I guided economic development for almost 20 years. Those parks today house about 10 to 15 percent of the entire work force of Allegany County, if they were

all Maryland residents. You may know that is a narrow part of Maryland with regional boundaries that involve three States.

For counties that don't have the tax base or bonding capacity to take advantage of many Federal programs, EDA stands ready to do its important work in partnership with State government and local entities, bridging digital divides, working with rural broadband, working with the infrastructure needed to build technology parks around the State. We currently are working with the development of a new park in Dorchester County at Cambridge to lay the important groundwork for jobs to be created on the Eastern Shore of Maryland. And very importantly, a strategic project at East Baltimore Development, Inc., or EBDI, as it is known, is taking investments from the State, the city and EDA to new levels to build a technology-rich biopark adjacent to the Johns Hopkins medical campus in Baltimore, which is a cornerstone of building new economy jobs for our significant cities.

States relying on EDA funding across the Country are enjoying the benefits of having these selective public investments move our economy forward. I would suggest that it is not time to pull back on any funding to EDA. Thank you very much.

[The prepared statement of Mr. Edgerley follows:]

Martin O'Malley
Governor
Anthony G. Brown
Lt. Governor
David W. Edgerley
Secretary
Clarence T. Bishop
Deputy Secretary

Economic Development Administration Oversight: Issues Relevant to Reauthorization

David W. Edgerley, Secretary
Maryland Department of Business and Economic Development

Testimony before the
Senate Committee on Environment and Public Works, Subcommittee on Transportation and Infrastructure

September 9, 2008

Introduction

Chairman Cardin, Ranking Member Isakson and distinguished Members of this subcommittee, good morning. My name is David W. Edgerley, Secretary of the Maryland Department of Business and Economic Development (DBED). On behalf of Governor Martin O'Malley, I appreciate the subcommittee's invitation to offer my perspective on the U.S. Department of Commerce's Economic Development Administration and issues relevant to reauthorization. I welcome the opportunity to share with you what EDA assistance has meant for Maryland's distressed communities and regional economies.

As the Subcommittee is aware, the current authorization of the EDA is set to expire September 30, 2008. I am here today to strongly urge the Senate's approval for not only reauthorization of this critical federal program but for increased funding. The State of Maryland, Department of Business and Economic Development and Local Economic Development Districts support the Economic Development Administration (EDA) Reauthorization Act of 2008 which proposes to extend the authorization for appropriations under the Public Works and Economic Development Act through fiscal year 2013.

As you have heard and will hear from witnesses today, there are a multitude of projects that would not have happened without EDA funding. And as a result of this available funding, some of the nation's and Maryland's most distressed communities have experienced private sector investment, job creation and enhanced economic vitality.

Office of the Secretary 217 East Redwood Street Baltimore, Maryland 21202 Phone: 410-767-6300 Fax: 410-333-8628 Toll Free: 1-888-choosemd

As Secretary of DBED, I am charged with implementing Governor O'Malley's vision for a strong One Maryland economy where all jurisdictions – urban, suburban and rural, wealthy and economically distressed – reach their full potential. This means having an understanding of the entire state economy, appreciating regional strengths and unique qualities and recognizing the barriers and challenges to economic prosperity. From mountainous Western Maryland, to Baltimore City to the far flung reaches of the tranquil Eastern Shore, EDA has contributed significantly to the local, regional and state economy.

I would like to take this opportunity to share with you my experience with EDA funded initiatives and projects, from two very different perspectives. As DBED's Secretary, I would like to bring you a statewide perspective on how EDA has helped shape regional economies through strategic investments. And, as the former Director for the Allegany County, Maryland Office of Economic Development in the 1980s and early 1990s and a practitioner of local economic development for 30 years, I have experienced first-hand the importance of the EDA in working to attract new business investment in a significantly distressed region of Western MD.

Maryland's Economy in Transition

The Maryland economy has transformed itself significantly during the past 20 years. The 1990s was a decade of decline, change and revival, with Maryland's economic performance among the worst in the nation in the first half of the decade. The state made a dramatic turnaround in the late 1990s, a resurgence partially due to the emergence of more integrated, fast-paced, competitive and efficient New Economy industries including life sciences, information technology, and aerospace and defense.

Today, Maryland has a diverse, knowledge-based economy with a strong focus on technology and one of the best workforces in the country. We have tremendous resources in federal labs/research facilities and institutions of higher education. In the past few years, Maryland has also become a noted biotechnology area, and is front and center in the mapping of the human genome and commercial applications spinning out of this research. Maryland now ranks 2nd in the nation in the Milken Institute State Technology and Science Index, which measures a state's ability to foster and sustain a technology sector. According to the report, Maryland was able to jump ahead of other states because of our increased focus on attracting businesses and generating new projects that link research institutions with industry to produce the most advanced products.

Using most measures of economic stability, Maryland is very well off. Maryland has one of the lowest poverty rates in the nation (8.3%), unemployment rates consistently below the national average, and the highest median household income in the country ($68,080). Yet there are areas of the State that are not as well off as the burgeoning corridor of the Capital region, Central and Southern Maryland.

- The Appalachian Region of Maryland has historically had one of the slowest growth rates of the State. For many years this area saw a decline in population, and periods of high unemployment caused by the closure of manufacturing facilities in the 1980s. The "Mountain Maryland" counties, Allegany and Garrett, have incomes that are less than 80 percent of the national median household income. Poverty rates in those counties are at or above the national poverty rate of 13%.

- Baltimore City, our largest city with a population of 637,445, and also a traditional manufacturing city, has the highest unemployment rate (7.3%) and the highest poverty rate (20%) in the State.
- And on the Eastern Shore, there are many rural communities that are seeing poverty increase as the resource-based economies of the past suffer. Somerset County, the state's southernmost county and a major seafood processor and poultry producer, has a current unemployment rate of 6.6% and Dorchester County's unemployment rate is 6.1% for July 2008.

A key strategy to alleviating these areas with significant unemployment and underemployment has been the targeting of State resources in the pursuit of Governor O'Malley's "One Maryland" strategy. We do this through programs such as State Enterprise Zones and the One Maryland Tax Credit program. We have 28 enterprise zones located throughout the state including ten in Western Maryland, eight on the Eastern Shore and one in Baltimore City. Seven of Maryland's 24 jurisdictions qualify for the One Maryland program which offers significant tax credits for new capital investments and job creation.

The Mountain Maryland Experience

In the early 1990s, the unemployment rate rose as high as 13% in Allegany and Garrett County and 9% in Washington County. Today, the region's unemployment rate averages 5.3%. Much of the economic growth this region has experienced over the last decade and a half is due in large part to timely investments from EDA. The primary conduit for receiving these funds is the Tri-County Council for Western Maryland, Inc. (TCCWMD). TCCWMD operates as an Economic Development Administration Development District and serves as the regional planning agency for Western Maryland under guidelines set forth by EDA. The District covers Allegany, Garrett, and Washington counties located in the western most part of the State. TCCWMD was formed in 1971 and has continually grown and adapted to offer new services. The Council also serves as a conduit to federal financing programs including the Appalachian Regional Commission and the Economic Development Administration.

The Tri-County Council of Western Maryland has been working for over three decades to stimulate economic growth and create permanent employment in Western Maryland. In response to the closing of Kelly-Springfield Tire Company and the Ft. Ritchie Military Base, the Council sought funds from EDA to provide opportunities for business expansion and start-up, targeting the many displaced employees.

Because of the extensive history in manufacturing and the presence of several colleges and universities in the region, the workforce remains strong. Companies entering the area that pay a living wage generally are impressed with the quality workforce and the sizable number of applicants they receive. The workforce of the Western Maryland area is largely characterized as being dedicated, hard-working and skilled in traditional manufacturing. Employees and their families have worked life-long at plants, mills, and large corporations and are used to shift work. They do not, as a rule, relocate for a minimal increase in salary. Unfortunately, the skills and requirements of the workforce are changing. The workforce needs to become more technologically competent. To a certain degree, the Western Maryland workforce lags behind in the skills needed for the new workforce, largely due to geographic isolation and the lack of

educational capabilities and opportunities. Contributing to this isolation is the "digital divide" or lack of telecommunications infrastructure.

Revolving Loan Fund

EDA funds helped seed and establish a Revolving Loan Fund in 1980. The Tri-County Council has been providing gap financing for new and expanding businesses for more than two decades in an effort to stimulate economic growth and create permanent employment in Western Maryland. Since 1980, the Council has disbursed more than 180 loans to businesses in the Tri-County region totaling over $10 million. The majority of the loans support fixed assets in either a commercial or industrial setting. These loans have resulted in more than 2,100 new jobs and the retention of more than 1,600 jobs (source: Tri-County Council Economic Impact Study, 2005). To compliment and enhance the reach of the Revolving Loan Fund, in 2004, the Maryland Department of Business and Economic Development (DBED) awarded the council a grant to establish the Business Enterprise Loan Fund to be used in conjunction with the Council's traditional financing tools. The DBED funding is an example of how state and federal funds are leveraged to provide working capital for small and emerging businesses.

EDA helped fund first business parks/incubators

Allegany County built seven business parks to bring high quality jobs to the County. Over ten percent of the County's employment is now located in those parks. Six of the parks were made possible by EDA funding. New projects include the Allegany Business Center at Frostburg State University, a technology-based business park located on university land and offering the resources of Frostburg State and the University System of Maryland. Also just completed is the Barton Business Park for Advanced Manufacturing, located south of Cumberland and adjacent to the Robert C. Byrd Institute for Advanced Manufacturing.

Regional Planning – Addressing the Digital Divide

As an Economic Development District as defined by EDA , the Tri County Council of Western Maryland has continuously updated regional planning documents that make the region eligible for federal funding. In recent years, the Council has worked with Maryland's Technology Development Corporation (TEDCO) to complete a "Demand Aggregation Study" in Western Maryland. This study assesses the existing telecommunications infrastructure in the region. The study illustrated that many areas were underserved, and thus uncompetitive with urban areas in the State. The final report identified findings illustrating that enough demand existed in Western Maryland for private telecommunications firms to invest in upgrades of existing infrastructure. While high speed internet access is available in many parts of Western Maryland, it is not cost effective for companies that are technology driven to invest here as costs for these services still are not competitive with urban areas of the State. One of the largest upgrades needed in the areas was a local Point of Presence (POP) that would limit fees charged for the distance data needs to travel.

Western Maryland now has the lowest unemployment rate in its history, and families and individuals have the opportunity to work and live in the area. This region can attribute much of its improved economic standing to assistance it received through EDA funded public works projects and planning grants to the Tri County Council of Western Maryland.

What EDA Means for Maryland

EDA has been a key resource for Maryland's investments in economic development projects. Since FY2003, EDA Approved investments in the State of Maryland totaled over $13 million and helped created 2,615 jobs and leveraged $241 million in private sector investment.

EDA is the only federal agency focused solely on private sector job growth and sustainability and serves as a vital resource for distressed communities striving to improve their local economies through a bottoms-up economic development strategy. In addition to the Tri County Council of Western Maryland, the Baltimore City Office of Planning is also an EDD organization. These organizations receive annual grants for Comprehensive Economic Development (CED) plans that identify noteworthy public infrastructure, economic development/job creation, and workforce development projects.

In recent years, two regional planning councils on Maryland's Eastern Shore have applied for EDD designation and are pending approval. The Mid-Shore Regional Planning Council and the Lower Shore Regional Planning Council, established in 2002, have provided much needed guidance, coordination and strategic planning for a region transitioning its economy. These EDDs develop comprehensive plans that identify opportunities for growth and redevelopment for the State's most distressed regions.
As Secretary for Business and Economic Development, I am pleased to work in partnership with these jurisdictions and the EDDs to identify opportunities where State economic development funds can help leverage federal EDA funds for worthwhile job creation projects.

As funding for Maryland's capital and economic development projects is challenged because of fiscal constraints, the State is ever more dependent on EDA funding to make these initiatives a reality.

Notable projects and initiatives include:

DORCHESTER TECHNOLOGY PARK

In 1999, with most of the existing industrial sites full and all lots in the Chesapeake Industrial Park developed, Dorchester County decided it was necessary to develop a new Park. The Department subsequently approved a $1.75 million loan to the Maryland Economic Development Corporation (MEDCO) for the Dorchester Technology Park Project. DBED funds are intended to be used for land acquisition and some infrastructure development on the 113 acre parcel. The Project is expected to create a high quality and strategically located Park to promote economic growth with the creation of higher paying jobs.

The project budget revised as of January 2008, indicates there will be additional funding from EDA for $2,257,500 and from the U.S. Department of Agriculture for $2 million for infrastructure.

EASTERN SHORE OF MARYLAND REGIONAL FIBER OPTIC BACKBONE

The Maryland Broadband Cooperative, Inc. is overseeing the deployment of a fiber optic backbone to bridge the Maryland's digital divide. High speed internet access has been readily available in the Baltimore-Washington corridor. However, areas such as Maryland's Eastern Shore and Western Maryland have not benefited from this infrastructure. Unfortunately, private sector providers in the State have not viewed providing this service to Maryland's rural regions as profitable. As such, a nonprofit cooperative was founded to ensure areas previously neglected by private sector providers would enjoy the benefits of high speed connectivity to the Internet. In 2006, Maryland's General Assembly adopted legislation mandating state funding to support this initiative for three consecutive fiscal years. The Cooperative has received EDA funding enabling the connection from Maryland's lower Eastern Shore bordering Virginia to the Upper Shore and across the Bay Bridge to connect with Maryland's western shore. Bringing high speed/broad band connectivity to the Eastern Shore will allow businesses to take advantage of opportunities to grow and expand their business operations and put them on a level playing field with other businesses in Maryland.

EAST BALTIMORE DEVELOPMENT INC.

East Baltimore is a new model for urban revitalization happening in Baltimore. The once-blighted East Baltimore community is being transformed into a thriving community as part of a $1.8 billion public private partnership. Created in 2003, East Baltimore Development Inc. (EBDI) is a nonprofit partnership of private and public entities that is undertaking the redevelopment of 88 acres. EBDI of Baltimore was chosen as a finalist for EDA's Excellence in Economic Development Award in the category of Excellence in Urban or Suburban Economic Development. EBDI was recognized for its Responsible Community and Economic Development Initiative, which addresses the physical, human and economic conditions of a neighborhood in a comprehensive plan for revitalization. This initiative has successfully ensured the maximum benefit for the residents moving out of the neighborhood into new communities and offering them the opportunity to return to the New East Side, with economic and racial diversity, higher home values and lower crime. DBED and EDA have been partners in this effort, with DBED providing $4 million and EDA providing $2 million in funding for the development of a Life Science and Biotechnology Park in East Baltimore. When fully completed, the state will have invested upwards of $120 million in this project.

ALLEGANY BUSINESS CENTER AT FROSTBURG STATE UNIVERSITY

The Allegany Business Center is a technology park specifically developed for the purpose of attracting high-end research, development, and/or production companies that would benefit, directly or indirectly, from facilities available at Frostburg State University. Allegany County, in partnership with Frostburg State University (FSU), will continue to explore ways to market the Allegany Business Center to a Biotech or other advanced technology enterprise. Possible initiatives include linking the research opportunities with FSU and/or Community Colleges; and supporting construction of a multi-tenant spec building, which could be custom fit-out to accommodate a Biotech or other advanced technology enterprise with the potential direct linkage to FSU and/or Community Colleges.

Looking to the future and Reauthorization

As the Senate deliberates the future of EDA we in Maryland ask that the following critical issues be considered and adopted:

- **EDA helps create higher-skill, higher-wage jobs:** Between EDA's 2004 reauthorization and the end of this year, the agency will have helped America's rural and urban communities create over 350,000 higher-skill, higher-wage jobs at an average cost of $2,500 per job.

- **EDA supports a critical nationwide network of Economic Development Districts (EDDs) and University Centers:** EDA's network of 375 EDDs helps to guide the economic development planning process for America's economically distressed communities. EDA's network of University Centers assists in making the vast resources of universities available to economic development communities.

  In Maryland, Morgan State University, Towson University, and University of Maryland Eastern Shore are the three university centers providing multi jurisdiction and statewide technical assistance s to advance the economic health of Maryland's regional communities. Since FY2003, these university centers have received $1.254 million and used the funding to provide technical assistance on a multi city/region basis to businesses.

  As mentioned earlier in the testimony, Maryland has two EDDS – Tri County Council of Western Maryland (serving Maryland's Western jurisdictions of Washington, Allegany and Garrett Counties) and the Baltimore City Office of Planning (serving Baltimore City) and two entities pending EDD designation – Mid Shore Regional Planning Council (serving the three mid Eastern Shore Counties of Maryland – Caroline, Talbot and Dorchester) and the Lower Shore Regional Planning Council (serving Somerset, Wicomico and Worcester). Ultimately Maryland will have four EDDs preparing annual comprehensive economic development plans that will lay the framework for economic development and public works initiatives for Maryland's distressed regions.

- **EDA spends taxpayer dollars wisely:** EDA targets its investments to partner with the private sector to create higher-skill, higher-wage jobs. On average, every dollar in taxpayer money that EDA has invested since 2002 has attracted $31 in private sector investment.

Additionally, Maryland believes the following projects/initiatives should continue receiving EDA support for a statewide project that will link Maryland's Eastern Shore with Western Maryland:

High Speed Broadband Telecommunication Service

The Tri County Council of Western Maryland in partnership with the Mid Shore and Lower Shore Regional Planning Councils hope to extend the success of the Rural Broadband Cooperative's laying of high speed fiber to Mountain Maryland. As the building of a high speed network on Maryland's Eastern Shore comes to a conclusion, businesses in Western Maryland are hoping to extend the high speed network to Mountain Maryland. The Tri County Council of

Western Maryland has identified this in their annual CEDS and hopes to secure EDA funding to assist with this project.

Historically, rural Maryland has lagged the rest of the state in deployment and use of high speed broadband telecommunications infrastructure. The result has been slower economic development, higher telecom costs and inferior services available to businesses, education and residents. Local activities have made progress including Allconet2, SAILOR MD Library network, USDA Oakland Grant, but much remains to be done. Private sector telecom providers need to justify investment in rural Maryland to fully deploy broadband at competitive rates to all users.

Current telecommunications service providers, such as Verizon, are able to provide DSL and cable service to households and small businesses that have low bandwidth requirements. The projects underway in Allegany & Garrett Counties will offer broadband capabilities that are robust enough to attract broadband dependant employers, as well as support local public agencies and educational institutions. Garrett County is utilizing fiber and Allegany County's Allconet2 project is utilizing wireless technology. Allconet2 will build a wireless telecommunications system based on state-of-the-art proven technologies to deliver high-speed Internet connections to businesses and other users in central and western Allegany County and adjoining areas. All private sector customer contacts with be through private partners, either local Internet Service Providers or other private signal carriers as may be required. The goal is to provide affordable, reliable services ranging from basic broadband to clear channel DS3 connections.

In order to continue these efforts, the Maryland Department of Business and Economic Development urges the Committee to not only hold the line on reductions to EDA but to increase the appropriation from $250 million to $400 million as advocated by the Economic Development Coalition.

Maryland's ranking among technology leading states must be sustained and enhanced, not only in the Baltimore-Washington corridor but in those areas outside the corridor that do not traditionally benefit from the economic impacts of technology firm presence. It is a priority of Governor O'Malley that these traditionally manufacturing dependent and resource-based industry dependent regions fully experience the economic growth that a transition to new economy businesses can bring.

For both Western Maryland and the Eastern Shore, pipeline projects include the development of technology incubators to attract new economy firms. Additionally, completion of Maryland's Rural Broadband Initiative - bringing high speed data access to rural regions is key to technology business attraction. In order to achieve this, Maryland needs the continued support of EDA and its planning and project funding.

I would like to thank the Chairman and members of the Subcommittee for their time and consideration and respectfully ask for your full support for not only reauthorization of this critical federal program but for increased funding

I'm happy to take any questions you may have. Thank you.

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Senator CARDIN. Mr. Secretary, thank you very much.
Ms. Mazer.

STATEMENT OF LEANNE MAZER, EXECUTIVE DIRECTOR, TRI-COUNTY COUNCIL FOR WESTERN MARYLAND, PRESIDENT, NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Ms. MAZER. Good morning, Mr. Chairman, Ranking Member Isakson.

My name is Leanne Mazer. I currently serve as President of the National Association of Development Organizations, and Executive Director of Tri-County Council for Western Maryland, an EDA-designated economic development district serving the three westernmost counties in the State. I want to thank you for the opportunity to testify today on issues related to the reauthorization of EDA.

Before I get started, I wanted to note that NADO is working with a coalition of national groups that includes the National Association of Counties, the American Public Works Association, The National Association of Regional Councils, University Centers and others to proactively promote the reauthorization of EDA. First, Mr. Chairman, EDA has proven time and time again, both in independent evaluations and in jobs created and private sector dollars leveraged, that its programs work effectively. Now is the time to ensure its funding reflects its accomplishments. In other words, EDA works, and now it needs the resources to excel.

As the only Federal agency focused solely on private sector job growth, EDA is a vital resource for localities striving to improve their economies. Whether it is through infrastructure grants, strategic planning assistance, business development capital, EDA investments are uniquely positioned to promote economic development in impoverished areas and to help local communities improve their connections to the national and global economies. Since its inception, EDA has helped create over four million jobs and leveraged in excess of $130 billion in private sector investments in more than 8,000 communities. This is an incredible record for an agency with a modest annual budget of under $300 million.

However, since 2001, as you stated earlier, EDA's funding has declined 36 percent and if enacted, the Administration's 2009 budget request would impose a 53 percent cut below that current fiscal year. The Administration's proposed cut could potentially result in the loss or delay of $3.8 billion in new private sector investment and the loss of more than 36,000 jobs in distressed areas. We urge Congress to enact a multi-year reauthorization bill for EDA that supports the highest funding level possible for the agency's economic development assistance programs.

Second, Mr. Chairman, NADO urges Congress to increase funding for EDA's planning program from $27 million to $34.4 million and provide additional resources for the nationwide network of 375 economic development districts. This proven program provides essential seed capital and matching funds for the national network of EDDs to foster regional cooperation and implementation of projects at the local level. Without the assistance and expertise of economic development districts, most of our local communities, par-

ticularly those in small metropolitan rural areas, would not be able to package infrastructure and development deals.

EDDs have established an impressive record of facilitating comprehensive development strategies that serve as the backbone of EDA's success. EDA's on-time project completion rate and high rates of leveraging private sector investment in job creation would not be possible without the direct involvement and participation of the EDDs. We are thankful that this Committee recognized the critical value of EDA's planning program in the 2004 reauthorization measure and provided a minimum level of support for that program of $27 million, which was an increase of $3 million over the program's existing appropriation level at that time. Increased funding now would provide EDDs with the flexibility needed to pursue effective job creation strategies, comply with increased Federal regulations and mandates and ensure that our under-served communities across the Nation are better positioned to overcome a new generation of obstacles brought on by global economics.

Third, Mr. Chairman, we urge Congress to strengthen local controls at the EDA's revolving loan funds program. The RLF program is one of the most successful and powerful economic development tools for addressing credit needs in distressed and under-served areas. Locally managed RLFs have provided business capital to thousands of new and existing companies that had difficulty securing conventional financing. Over the years, EDA has provided grants to nearly 600 RLFs with net assets approaching the $850 million.

EDA's RLF program has the unique distinction of being the only Federal grant program that never loses its Federal identity. The initial RLF grant and any income or interest that is derived from it is considered Federal property. RLF operators are forced to continually comply with expensive and burdensome reporting and audit requirements. Ownership of EDA's RLF should be fully transferred to the local intermediaries once all of the initial funds have been loaned out, repaid and fully resolved. This would also significantly reduce the oversight and management burdens on EDA, which they have been unable to fulfill, while still ensuring local accountability is maintained.

Finally, Mr. Chairman, we believe there is a need to provide stronger and broader incentives to foster regional collaborations and partnerships among local governments, the private sector and educational non-profits and philanthropic institutions through the national network of EDDs. The 2004 reauthorization bill did establish two new performance award programs. Those initiatives are very limited in scope and have demonstrated little impact.

Congress is urged to buildupon the existing set of multi-jurisdictional EDDs to encourage, facilitate and reward regional development activities. Mr. Chairman, members of the Subcommittee, thank you again for the opportunity to testify. I would also welcome any questions.

[The prepared statement of Ms. Mazer follows:]

WRITTEN STATEMENT FOR THE RECORD

LEANNE MAZER, EXECUTIVE DIRECTOR OF THE
TRI-COUNTY COUNCIL FOR WESTERN MARYLAND
AND PRESIDENT OF THE
NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
BEFORE THE
SENATE ENVIRONMENT AND PUBLIC WORKS SUBCOMMITTEE
ON TRANSPORTATION AND INFRASTRUCTURE

WASHINGTON, DC
SEPTEMBER 9, 2008

EXECUTIVE SUMMARY

- NADO urges Congress to enact a multi-year reauthorization bill for the U.S. Department of Commerce's Economic Development Administration (EDA) that supports the highest funding level possible for the agency's economic development assistance programs. As the only federal agency focused on private sector job creation, EDA is a vital resource for distressed communities striving to improve their local economies. Whether it is through infrastructure grants, strategic planning assistance, business development capital or technical assistance, EDA programs are uniquely positioned to promote economic development in impoverished areas and in helping local communities improve their connections to the national and global economies. The agency has proven time and time again, both in independent evaluations, and in jobs created and private sector dollars leveraged that its programs work effectively. Now is the time to ensure its funding reflects its accomplishments.

- NADO urges Congress to increase funding for EDA's planning program from $27 million to $34.4 million and allow a $20,000 annual increase for the nationwide network of 375 Economic Development District (EDD). EDDs serve as a proven, essential and cost-effective resource for our nation's distressed communities, particularly in small metropolitan and rural regions. They have established an impressive record of facilitating comprehensive development strategies that serve as the backbone of EDA's success. Increased funding would provide EDDs with the flexibility needed to engage local government, businesses and community leaders in setting and pursuing effective job creation strategies and ensure that underserved communities across the nation are better positioned to overcome a new generation of obstacles brought on by changing global economics.

- NADO urges Congress to strengthen local control and operations of EDA's Revolving Loan Fund (RLF) program, as well as encouraging the agency to recapitalize and broaden the scope of existing RLFs. The RLF program is one of the most successful and powerful economic development tools for addressing the credit gaps that exist in distressed communities, particularly in underserved rural areas. By using limited public funds to leverage private capital, locally managed RLF's have provided business capital to thousands of new and existing companies that have difficulty securing conventional financing.

Thank you, Chairman Baucus, Ranking Member Isakson, Senator Cardin and members of the subcommittee, for the opportunity to testify today on issues relating to the reauthorization of the Economic Development Administration (EDA).

My name is Leanne Mazer. I am the Executive Director of the Tri-County Council for Western Maryland, headquartered in Cumberland. I also currently serve as President of the National Association of Development Organizations (NADO). My professional background includes nearly two decades in regional and local economic development, including seven years in my current position.

ABOUT NADO AND TRI-COUNTY COUNCIL FOR WESTERN MARYLAND

The National Association of Development Organizations (NADO) provides advocacy, education, research and training for the national network of 520 regional development organizations, including the 375 multi-county Economic Development Districts (EDDs) designated and funded by EDA.

NADO members —known locally as councils of governments, economic development districts, local development districts, planning and development districts and regional planning commissions— provide administrative, professional and technical assistance to over 2,000 counties and 15,000 municipalities. These entities administer and deliver a variety of federal and state programs. Based on local needs, programs may include aging, census, community and economic development, emergency management and homeland security preparedness, housing, small business development finance, transportation and workforce development. A policy board of local elected officials, along with business, education and citizen representatives, governs each group. Associate members of NADO include state and local agencies, educational and nonprofit organizations, businesses and individuals.

The **Tri-County Council for Western Maryland** is a regional economic development agency serving Allegany, Garrett and Washington counties. The organization serves as a regional planning and development organization under the guidance of both the Appalachian Regional Commission (ARC) and EDA. In addition to our professional and technical assistance programs for local governments, businesses and non-profit entities, our organization operates several small business development loan funds, serves as the state data center affiliate for Western Maryland and offers Geographic Information System (GIS) services for our local communities and partners.

On behalf of NADO members across the nation, Mr. Chairman, I would like to thank you and the members of the subcommittee for your support of EDA and its local partners. Given the broad array of programs and priorities under this panel's jurisdiction, we appreciate the opportunity to share and discus issues concerning this small but highly effective agency.

In addition, we would like to extend our appreciation to the full committee Ranking Member Senator Inhofe for his commitment to pursuing reauthorization for EDA. Legislation (S. 3264) that he has introduced maintains a strong budgetary baseline for the agency and represents a strong beginning in the process to develop and enact a broad-based multi-year reauthorization bill. We look forward to working with the committee to pursue additional modifications and improvements to the agency.

INCREASE RESOURCES TO BUILD ON EDA'S RECORD OF EXCEPTIONAL PERFORMANCE AND ACCOUNTABILITY

First, Mr. Chairman, EDA and its local partners have a proven and documented record of exceptional performance and accountability. As the only federal agency focused solely on private sector job creation and sustainability, EDA is a vital resource within the federal portfolio for distressed communities striving to improve their local economies. Whether it is through infrastructure grants, strategic planning assistance, business development capital or technical assistance, EDA programs are designed to promote economic development in impoverished areas. Most importantly, EDA investments are typically the seed funds or gap financing that make locally-identified projects a reality in the nation's distressed regions. Congress and the administration are urged to maintain a robust and vibrant funding level for EDA's planning, infrastructure and economic adjustment assistance programs.

The agency has developed a strong record in assisting communities who are struggling to overcome both long-term economic challenges and sudden and severe hardships. Through its full range of program tools, the agency has been uniquely positioned to help areas recover from military base closures and realignments, manufacturing plant closings, natural disasters and declines in natural-resource based industries like coal, fisheries and timber.

Since its inception, the agency has created in excess of four million private sector jobs and leveraged more than $130 billion in private sector investments. In 2007 alone, according to EDA's annual report, the agency helped to create or retain more than 52,000 jobs, attract over $10 billion in private sector investments and create long-term jobs at an average cost of $4,000 per job, among the lowest rates in government. And since the agency's last reauthorization in 2004, EDA has created over 350,000 jobs at an average cost of $2,500 per job. These are impressive accomplishments considering the agency has an annual budget under $300 million and that agency projects must be targeted to the nation's most distressed areas.

An independent evaluation by Rutgers University and a consortium of researchers in the late-1990s found that EDA projects are among the more cost effective and efficient in government. The typical EDA project is completed on-time and within budget, as well as leverages a significant amount of public and private sector support, adds to the local tax and employment base and creates high-quality, long-term jobs.

Despite EDA's long history of successfully creating and retaining jobs and generating private sector investments in America's impoverished regions, as well as high performance rankings from the Office of Management and Budget (OMB), the agency is continually faced with fewer resources.

Since FY2001, overall funding for the agency has dwindled 36 percent. In the administration's FY2009 budget request, the agency is facing a 53 percent cut below the current fiscal year and nearly 70 percent below the FY2001 level of $439.87 million. The budget request virtually eliminates its effective, much needed and proven public works program.

Using EDA's job creation and leveraging ratio figures, the administration's proposed cut of $147 million for FY2009 could potentially result in the loss or delay of $3.82 billion in new private sector investments and the loss of more than 36,000 jobs in distressed areas. In theory, EDA could potentially leverage more than $11 billion in private investments and spur the creation or retention

of more than 109,000 quality jobs if its budget was restored to its FY2001 level, based on the agency's performance in recent years.

The numbers above provide a powerful reminder of the impact EDA's resources play in stimulating job growth in distressed communities and that even a relatively small change in funding can make the difference in generating thousands of jobs and attracting hundreds of millions of dollars in new private investment.

However, job creation and retention figures and private sector leveraging ratios alone do not provide the personal story of EDA's impact in distressed and underserved communities at the grassroots level.

In my three-county region of Western Maryland, the immediate and long-term value of EDA is very evident, and we have tapped into EDA resources for a number of successful projects.

First, EDA invested $1 million as part of a $7 million infrastructure expansion effort to support a new American Woodmark facility. The project has helped generate 120 new jobs at the plant, with the potential of an additional 380 quality jobs in the next few years.

Due to our rural nature and relatively close proximity to three major metropolitan regions, tourism-led development is high priority for our region. EDA invested $2 million as part of a $7.5 million infrastructure project to support a new adventure sports center, the focus of which is a state-of-the-art whitewater rapids course and amphitheater. When completed, the project will include a mountain-top village consisting of a hotel, performing arts center and 450-home subdivision. It is a vital project that is expected to generate 1,900 jobs, $123 million in new spending and attract additional business sector development and knowledge-economy workers to our rural region.

EDA's success stories spread beyond just my region, as many distressed areas have relied on EDA investments to realize the economic development potential hidden within their communities.

Earlier this year, the **City of Hamilton, Montana** and the **Ravalli County Economic Development Authority** received $1.6 million for a joint investment to support construction of the new Ravalli Entrepreneurship Center, which will enable the county to enhance its efforts to diversify the regional economy by growing the technology and bio-medical clusters and offsetting economic dislocations associated with the downturn in the forestry industry. It is part of a $3.2 million project that will help create 253 jobs and generate $11.8 million in private investment

EDA provided essential gap financing to help the **Southern Tier West Regional Planning and Development Board (Salamanca, NY)** and its numerous partners revive and acquire 140 miles of short-line rail in southwestern New York. With $3 million in EDA funds and $2 million in state financing, along with an additional $26 million in public and private funds, the area railroad authority has dramatically increased the annual carloads on the line from only 71 to more than 55,000 today. The project, which took more than 15 years to gain state approval and implement, has helped to significantly reduce freight costs in the larger region and opened up a more direct route for coal producers in southern Pennsylvania to reach the New England market. It has also helped lower the number of trucks on the region's rural roads, while creating new jobs and spurring the creation of local shipping firms from one to 22.

Established in 1983, the **Akron Business Accelerator (Akron, OH)** is a small business incubator created through a partnership with the City of Akron, Akron Development Corporation, University of Akron and the State of Ohio. It offers 200,000 sq. ft of improved office, manufacturing, assembly, wet labs and conference facilities. With assistance from the **Northeast Ohio Four County Regional Planning & Development Organization**, the **City of Akron** has received two grants (1993 & 2003) from EDA totaling more than $2.9 million, which allowed the Accelerator to purchase and renovate the former B.F. Goodrich tire manufacturing facility, making it one of the nation's largest incubator facilities. EDA investment was critical in providing the city with the resources to foster innovative businesses and to diversify the local economy following a period that saw the loss of thousands of rubber manufacturing jobs. To date, a total of $20.1 million in private investment has resulted from the Accelerator, and more than 1,100 jobs have been created and retained.

The **Corcoran Joint Unified School District** and the **City of Corcoran, California** received a $3.2 million EDA investment to support construction of infrastructure for a job training center adjacent to Corcoran High School to serve residents of Kings County. This investment is part of a $6.2 million project that will help create 750 jobs and generate $62.7 million in private investment.

The **City of Valdosta, Georgia,** in cooperation with the **South Georgia Regional Development Center,** received $745,500 from EDA. This was coupled with an additional $1.4 million in state and local funds to enhance road, water and sewer services. The infrastructure improvement allowed for *Martin's Famous Pastry Shoppe, Inc®* to expand from its base in Pennsylvania to Valdosta to serve the southeastern United States. This resulted in the creation of 107 jobs, paying an average annual salary of $53,000, plus benefits, and leveraged an additional $49.7 million in private sector investment.

In March, the **South Jersey Economic Development District** and the **South Jersey Economic Development Authority** received a $2.5 million EDA investment to support construction of new infrastructure, roadway, sewer and water utilities needed for the development of the Aviation Research and Technology Park in Pomona. The Park will be situated on 55 acres of the 5,000-acre William J. Hughes Technical Center and will serve as a catalyst for national and international aviation research technology. This investment is part of a $7.5 million project that will help create 2,000 new jobs and generate more than $80 million in private investment.

Inadequate public infrastructure remains among the most significant road blocks to economic development in small town and rural America. Without EDA's resources, local governments will fall further behind in dealing with aging systems, meeting the intensifying demands of business and industry, and overcoming the recent cost spikes in construction materials and project costs.

EDA and its local government partners' main focus is investing in the public infrastructure and facilities that are not only needed to support the private sector, but also required by businesses and industries to operate and succeed. Without public services such as water and sewer, access roads, rail spurs or industrial parks, private industry will locate or relocate to places with these essential amenities, whether somewhere else in the United States, or even more frequently, abroad.

As reported by the American Society of Civil Engineers (ASCE), the nation's infrastructure remains in serious need of improvements and increased public investment. Improvement costs alone over the next several years are calculated in the trillions. America's ability to maintain and grow a world-class economy is directly linked to our ability to sustain the nation's infrastructure network.

In inflation-adjusted dollar terms, according to the Congressional Budget Office (CBO), annual public spending on infrastructure has steadily risen from $105 billion in 1956 to just over $312 billion in 2004. Of this total amount, the federal government spends approximately $75 billion a year on infrastructure investments, with EDA playing a targeted role in linking job creation and infrastructure improvements.

Although federal spending has averaged an annual rate of increase of 1.7 percent in dollar terms, as a share of total non-defense federal expenditures the federal contribution has declined. Between 1956 and 1966, infrastructure spending was approximately ten percent of non-defense discretionary spending, peaking at 11.2 percent in 1960. Since that time, this figure has steadily declined. Over the last twenty years, federal spending on infrastructure averaged 3.5 to four percent. Meanwhile, the state and local share of infrastructure costs have grown and continue to increase, according to CBO.

America is falling dangerously behind our global competitors in the level of investments made in the critical infrastructure needed for national economic competitiveness, as cited recently in *The Economist*. For example, China is spending nine percent of its annual Gross Domestic Product (GDP) on infrastructure investments—many times above what America currently spends (0.57 percent) as a portion of our total economy. China has already built nearly 52,000 kilometers of new roads in its rural areas since the 1990s. They are now planning to construct over 300,000 kilometers of new roads by 2010, 97 new airports by 2020 and, this year alone, add 66 gigawatts of electric capacity, which is more than the United Kingdom uses annually.

Countries in the Europe Union are redoubling their efforts, and India is expected to expend five percent of its GDP on infrastructure improvements, including the development of an end-to-end national transportation network. The countries of Sub-Saharan Africa are spending an average of 4.7 percent of the continent's total GDP annually on infrastructure investments. All are investing heavily in their infrastructure networks in a growing effort to gain a competitive advantage in the world market place.

At a time when nearly every American business and community is confronting intense competition from emerging and less developed nations, the federal government should be expanding, not cutting, resources and investments for critical public works infrastructure systems and regional strategic planning. EDA is the only federal agency with the mission of linking regional strategies and infrastructure investment with regional economic development initiatives to ensure communities grow sustainable jobs. It is also an agency that invests at the grassroots level, yet helps local communities improve connections to the national and global economies.

Throughout its history, EDA has been recognized as a national leader and innovator in the economic development field. Many cutting-edge practices have emerged from the agency's public works and economic adjustment assistance programs, such as business incubator buildings, smart technology parks, eco-industrial parks and the redevelopment of brownfields. Without the financial and technical support of EDA and its local partners, most distressed communities in small metropolitan and rural America would never have the opportunity to implement these innovative projects.

ECONOMIC DEVELOPMENT DISTRICT PROGRAM:
BUILDING CAPACITY AND PARTNERSHIPS FOR REGIONS TO COMPETE GLOBALLY

Second, Mr. Chairman, the economic development district planning program has proven to be a cost-effective and essential resource for our nation's distressed communities, particularly in small metropolitan and rural regions. This modestly funded yet highly effective program serves as an indispensible tool and critical lifeline for the nation's underserved regions.

According to the Regional Plan Association in its report *Rebuilding and Renewing America: Toward a 21st Century Infrastructure Investment Plan,* "America faces a host of challenges in the coming century. All of which will have profound impacts on the nation's future growth and development. Global economic restructuring, rising fuel and household costs, climate change, deteriorating infrastructure, all require strategies to maximize the nation's continued prosperity, opportunity and quality of life." The report adds that despite "these challenges, though, America is flying blind. No national strategy exists to build and manage the infrastructure systems needed to sustain inclusive economic growth and our competitive position in the global economy."

EDA's economic development district planning program is the only program in the federal government that invests in regional economic development planning with a specific focus on increasing private sector employment. It is the only program of its kind that allows local governments to collaborate on a region-wide basis to strategically plan for their economic sustainability. Unfortunately, it is only funded at $27 million each year. With 375 EDDs, numerous tribal planning partners and other short-term grantees, these funds can only be stretched so far. In addition, the average multi-county regional planning grant for EDDs has remained level at about $54,000 since the early 1970s. When measured in 1970 dollars, the real value is less than $10,718 today. By comparison, the same $54,000 is the equivalent of $272,047 when adjusted for inflation to 2005 dollars.

Local economic development is an exhaustive, lengthy and continuous process that takes strategic planning, regional cooperation, intergovernmental coordination and sustained organizational capacity and expertise, especially in today's rapidly shifting global marketplace. Through the EDA-required Comprehensive Economic Development Strategy (CEDS) process, Economic Development Districts (EDDs) foster regional cooperation, identify regional and local priorities and bring public, private and non-profit sector leaders together to work toward a common vision. All of these are difficult tasks that take significant time, a regional convener with credibility, and organizational capacity and sustainability. EDA's planning program provides the incentives, framework and matching grants to make it all work at the regional and local levels.

Because EDA projects must arise through the CEDS process and be matched by local funds, they consistently prove to be successful. EDA's on-time project completion rate, high rates of leveraging private sector investment and creating jobs at minimal tax payer expense would not be possible without the direct involvement and participation of the EDA-designated EDDs.

As demonstrated in a through program evaluation by the Center for Urban Studies at Wayne State University, the national network of 375 multi-county EDDs are effective at developing and coordinating local plans, implementing specific projects and initiatives, and providing professional expertise and capacity to distressed and underserved communities.

The Wayne State study concludes that EDDs have used their annual EDA planning funds to establish an impressive record of facilitating and leading a regional strategic planning process that "provides the critical backbone for economic development planning at the regional level.... EDD activities are both effective and essential to local development." The report adds that "EDDs very effectively use the EDA funding they receive. They have a strong ability to use that funding to leverage funding from other sources to pursue development activities."

The report also found that "there is a strong emphasis on capacity building. These activities appear to be extensive and creative, and are well received by constituents within the EDD region." This reflects the fact that the vast majority of the nation's local communities lack the financial and organizational capacity to hire and sustain a professional community and economic development staff. According to US Census Bureau data, 70 percent (or 2,187) of the nation's 3,141 counties have populations below 50,000 while only 954 counties have populations in excess of 50,000. Of the 35,933 municipal and township governments across the nation, 98 percent or (35,195) have populations below 50,000 while only 738 encompass areas above 50,000 residents. Without the capacity achieved through the EDA planning program, the vast majority of these local governments and communities would lack the ability to pursue professional strategic planning and development activities.

It is important to note that EDDs utilize the planning program for more than just the development of a comprehensive regional strategy for economic development—the program provides these entities with the flexibility and capacity to serve as important drivers and implementers of regional and local projects. By matching the federal share of the EDA program dollar for dollar, local governments are demonstrating their commitment to building the regional and local expertise required to pursue complex development initiatives and projects.

The challenges facing EDDs do not end at the county line or even regional or state boundaries. Managing development in a new era of economic realities requires a more thorough understanding of global economic conditions, familiarity with cutting-edge technology and innovations, impacts of development and land use on the environment, which, in many areas, is all compounded by issues of persistent poverty and long-term economic distress.

However, communities that have historically focused on regional strategy development and implementation are reaping those benefits today more than ever and are better positioned to compete in the new world economy—to attract ideas, innovation and creativity that are the hallmark of successful communities.

Over the last several years, the **Eastern Oklahoma Development District** (Muskogee, OK) has leveraged its CEDS into more than $4.42 million in EDA investments for five different projects. These EDA grants matched $11.32 million in other public funds while generating $143.5 million in private investments and creating more than 1,640 new jobs in this distressed region. With the leadership of the EDD, EDA invested:

- $1 million, matched by a $4.5 million in state assistance, to build a state-of-the-art facility for the Indian Capital Vo-Tech Campus that offers classes in building trades, nursing and the health and business fields
- $420,000 to help create more than 400 new jobs at a new 350,000 sq. ft. manufacturing plant for Therma-Tru Doors, a firm specializing in entry and patio doors

- $1.5 million to secure $10 million in private funds to restore the historic Three Forks Harbor into a mixed-use site for recreational boating, sport fishing, hiking and biking—an essential part of the region's economy
- $1 million to help build the infrastructure needed for Dal-Tile, a ceramic tile manufacturer, to open a facility in the region, ultimately generating $96 million in private investments and creating 600 new jobs within the region
- $500,000 to help make the infrastructure improvements related to a new plant for American Woodmark, a major cabinet manufacturer, which resulted in over $15 million in private investments and the creation of over 400 jobs

Beginning in 2000, **the Green Mountain Economic Development Commission, Southern Windsor County Regional Planning Commission, Springfield Regional Development Corporation** and **Two Rivers-Ottauquechee Regional Commission** embarked on a CEDS development process that encompassed a forty-town area in Vermont. As a direct result of the CEDS, a key project in the region received EDA assistance of $830,000 for the Town of Randolph and the Vermont Technical College for the development of a business incubator to improve the Randolph area economy.

In the wake of the devastating hurricanes that hit the Gulf Coast in 2005, the State of Louisiana began requiring all governing bodies and municipalities to comply with the Internal Building Code (IBC). Areas in the state that were not already implementing the code faced significant difficulty in coming into compliance due to technical and financial constraints, especially those in underserved rural areas. The planning and technical assistance provided by the **South Central Planning and Development Commission (Gray, LA)** led to the formation of the first-of-its-kind Regional Construction Code program serving five counties in the region. Aside from bringing the local jurisdictions into compliance with the new law, the program has resulted in better coordination between parishes, reduction of costs in implementing the code program due to economies of scale, and comprehensive and consistent enforcement without political intervention.

In Idaho, the **Region IV Development Association** (Twin Falls, ID), an EDA-designated EDD, has leveraged its role as the regions central economic development entity to secure funding for a variety of key development initiatives, including playing a leadership role in obtaining EDA funding for industrial park development in Jerome and Gooding Counties, resulting in more than $220 million in private sector investment and 2,200 new jobs.

In 2000, the group helped establish and assist the Southern Idaho Economic Development Organization (SEIDO) to promote the region as a first-class business destination. SEIDO is a public-private partnership, including chambers of commerce, several cities and counties, Idaho Power and the College of Southern Idaho. One of its first successes was locating a new Dell Computer service center with 650 employees in Twin Falls.

Not only as a consequence of changing global economics, shifting demographics, increased environmental degradation and decaying infrastructure, EDDs are increasingly called upon to perform more for less and comply with increased federal regulations and mandates.

Regulations following EDA's 2004 reauthorization legislation (P.L. 108-373) required EDDs to substantially increase the scope and elements of their CEDS to include lists of potential projects, an analysis of the role of the private sector, identification of economic clusters, inclusion of performance standards, as well as the inclusion of advanced technology and workforce

development elements. These are all valuable activities, yet they can be very technical, time consuming and expensive.

We are thankful that members of this committee recognized the critical value of the EDD planning program in the 2004 EDA reauthorization measure and provided a minimum level of support for the program of $27 million, which was an increase of $3 million over the program's existing appropriations level (the program has historically been funded as a separate line-item within the agency's Economic Development Assistance Program account).

The increased support was to be used to fund the backlog of designated-but-unfunded EDDs and increase the overall planning grant level for existing EDDs. Since that time, the number of funded EDDs nationwide has increased from 320 to 375. However, the amount invested to support each EDDs economic development planning activities has remained stable at $54,000 annually for more than thirty years. If EDDs are to remain at the forefront of our nation's regional economic development efforts, we will need a modest increase in funding.

Across the country, EDDs overwhelmingly report that additional funding is needed to:

- Expand local participation in the CEDS process and comply with the new CEDS requirements that were revised and expanded in the regulations following the 2004 reauthorization bill
- Maintain the organizational capacity and expertise needed to implement projects identified in the CEDS process, as well as provide technical assistance on local projects and initiatives
- Develop capacity to incorporate Geographic Information Systems (GIS) data into the CEDS
- Conduct in-depth regional cluster and innovation system studies of key industries

EDDs serve a vital role in ensuring the economic competitiveness and sustainability of America's distressed regions. The changing global economy brings new challenges that all communities, large and small, must face. Increased investment in EDDs will strengthen the chances of our nation's underserved communities to overcome this new generation of obstacles.

EDA Revolving Loan Fund Program:
Provide Additional Resources with Increased Local Flexibility and Control

Third, Mr. Chairman, we urge the committee to develop provisions that increase the amount of resources for EDA Revolving Loan Fund (RLF) intermediaries to support new business startups and expansions in distressed regions. We also strongly support new provisions to increase local control and autonomy once the initial RLF grant investment has been loaned out, repaid and fully revolved.

EDA's RLF program is one the most successful and powerful economic tools for addressing the credit gaps that exist in many distressed communities, particularly in underserved rural areas. By using limited public funds to leverage private capital, locally managed RLFs have provided business capital to thousands of new and existing companies that have difficulty securing conventional financing. Over the years, EDA has provided grants to nearly 600 RLFs with net assets approaching $850 million.

Capitalized with an EDA grant, RLFs are managed by public and private nonprofit organizations (including EDDs) to further local economic development goals by lending their initial capital and then relending funds as payments are made on the initial loans. Loans are typically used for fixed

assets or working capital needs. Organizations are required to demonstrate that an RLF fits their local needs, as outlined in a CEDS and RLF plan.

The inclusion of RLF funds in a business deal usually encourages once-reluctant banks to also participate, since loan funds normally agree to let banks recoup their losses first from the business' collateral in the event of default. By providing such gap financing, loan funds have been instrumental in the growth of companies that otherwise would not have received credit assistance.

The Rutgers University evaluation revealed that almost 300,000 jobs were created and saved by RLF loans between 1976 and 1998. Research found that without RLF investments, over 76 percent of borrowers would have gone out of business, not started their companies, or canceled, delayed or scaled back the investments in their companies. In addition, for every dollar lent by an EDA RLF, an average of $4.50 is matched by private lenders.

RLFs play a particularly critical role in the economic development of distressed rural areas, where alternatives to conventional financing are limited. In metropolitan areas, community development corporations (CDCs) and municipal agencies often manage loan funds. In rural areas, where there are few CDCs and limited municipal capacity, RLFs managed by regional development organizations such as EDDs are often the only source of financing for entrepreneurs and existing businesses. A January 2002 NADO survey of regional development organizations with loan funds found that half are the sole lenders in all or part of their multi-county service delivery area.

I know first-hand the transformative effect the RLF program has at the local level. My organization has received direct grant assistance from EDA to establish and expand our RLF program to provide gap financing to private businesses and entrepreneurs who are struggling to secure traditional finance capital. Since the inception of our original RLF in 1981, Tri-County Council has made 142 loans within our rural region. The loans disbursed total more than $8 million and have leveraged more than $49.5 million in private funds, owner equity and other public investments. These funds have helped create 1,744 jobs and retain 1,342 jobs in our rural region. This translates into roughly one job created or retained for every $2,656 of EDA RLF money invested, an incredibly efficient and prudent use of public resources.

Over the past decade, **Idaho's** six EDDs have made more than 711 business loans worth more than $212 million. These investments have leveraged more than $400 million in new private sector financing for emerging and existing businesses, helping retain 4,228 jobs while creating 4,696 new jobs across the state. Today, the EDDs have a combined loan fund portfolio of $96 million.

The **South Central Oregon Economic Development District** (Klamath Falls, OR) recently provided a $150,000 EDA RLF loan to Biotactics, a California-based company that produces biocontrols as an alternative to toxic pesticides. The company is expanding into Oregon to take advantage of the Klamath Basin's geothermal heat. The firm is locating in an agriculture industrial park in the region and is expected to employ 32 local workers in this distressed rural area within the first two years. The loan is leveraged within an additional $360,000 in state, local and private funds.

With assistance from the **Southern Iowa Council of Governments** (Creston, IA) RLF program, MG Machining has grown from a one-person home operated business to a global precision tooling enterprise occupying a 10,000 sq. ft. facility in rural Bedford, Iowa. The company now employs 15 full-time and 13 part-time employees and has annual sales of roughly $2 million.

The struggles of communities in northern Maine echo the constant challenges facing local economic development practitioners and the need for a stable presence and expertise of EDDs. Anticipating a significant downsizing of its defense sector in 2003, the State of Maine prepared a plan that outlines a comprehensive strategy for dealing with a broad range of impacts such as base closures, defense contractor layoffs and ancillary firm downsizings.

Among the strategies was the creation of a Revolving Loan Fund administered by the region's EDD. Since the Loring Air Force Base closed in 1994, the **Northern Maine Development Commission** (Caribou, Maine) has used its EDA-funded Defense Diversification Loan Program to make 49 loans totaling $5.2 million. These loans have resulted in retention and creation of 2,137 jobs in this highly rural region and leveraged more than $44 million in additional funds. These investments have assisted existing businesses affected by the closure to modify their business models, stay in business, and retain and add jobs. It has also financed new businesses that have hired dislocated defense workers.

Despite the effectiveness of locally-managed RLFs, a number of deficiencies have been cited in EDA's care and nurturing of the program.

In 2007, the Department of Commerce's Office of Inspector General (OIG) released a report of its performance audit of EDA's internal management of its RLF program. The report encapsulates the result of audits that took place at each of EDA's six regional offices covering the period of September 2004 through September 2005. In addition, the office has conducted 50 audit reports on individual RLF recipients between 2001 and 2006. The report states that despite issues raised by the OIG and "EDA's recognition of serious management problems and needed improvements, EDA has not addressed significant problems that were previously identified."

Overall, the report is critical of EDA's management and operation of the program, not the performance of RLF intermediaries. It voices concerns regarding the lack of staff to properly oversee the program and lack of proper technical assistance provided to RLF operators.

To overcome these deficiencies, maximize the job creation potential of this innovative program and allow it to return to its core mission of providing business capital to support new and expanding businesses in distressed areas, NADO urges the adoption of several policy initiatives in EDA's upcoming reauthorization measure.

Strengthen local control and ownership of RLFs. EDA's RLF program has the unique distinction of being the federal grant program that never loses its federal identity. The initial RLF grant and any income and interest derived from it are considered federal property. As a result, RLF operators are perpetually required to comply with burdensome and expensive reporting and audit requirements. Ownership of EDA RLFs should be fully transferred to the local intermediary once all of the initial funds have been loaned out, repaid and fully revolved. This would significantly reduce the oversight and management burdens on EDA, which they have been unable to fulfill, while still ensuring local accountability is maintained. It should be treated like a grant program to intermediaries, as it is named, rather than a loan program to intermediaries, as it is currently operated.

Recapitalize and broaden the scope of existing RLFs. Allocate new resources to clear EDA's backlog of RLF capitalization and recapitalization needs. Due to changes in the agency's investment priorities and reductions in headquarters and regional office staff, we are aware of fewer than a

dozen new EDA RLF grants to intermediaries in the past several years. This is despite the proven track record of the RLF program in providing vital gap financing to local entrepreneurs and businesses struggling to secure traditional bank financing in underserved and distressed regions. In addition, there is a pressing need to streamline the reporting requirements and expedite the timing of intermediary requests to turnover underused RLFs to those operators in need of new or additional funds. Currently, we understand that most unused RLF money is returned to EDA or the U.S. Treasury and is not recirculated to other RLFs for relending.

Create an RLF Users Advisory Group. Over the years, EDA has funded nearly 600 RLFs with net assets of nearly $850 million. Since RLFs retain their federal nature in perpetuity, RLF operators must provide regular reports and comply with EDA guidelines forever. However, the agency has experienced significant staff cutbacks, including loss of senior management and program staff with RLF expertise over the past several years. As a result, it has become increasingly difficult for the agency to provide the necessary oversight, management and program innovations needed to keep the program at the cutting-edge. NADO urges Congress to require EDA to establish an RLF Users Advisory Group to assist the agency in strengthening RLF program operations, reporting and management; sharing of program innovations and trends; and recommendations for modifying and expanding the use of RLFs to address the evolving finance and technical assistance needs of entrepreneurs and businesses in distressed areas.

INITIATIVES AND REFORMS TO IMPROVE AND MAXIMIZE EDA'S PERFORMANCE

Finally, Mr. Chairman, we believe there are additional policy initiatives and program reforms that if instituted, could significantly improve EDA's performance in providing cutting-edge infrastructure and economic development investment assistance in distressed and underserved areas.

1) **Provide stronger and broader incentives that reward and foster regional collaborations, partnerships and initiatives among local governments through EDDs, as well as between local governments and EDDs with private sector, educational, non-profit and philanthropic institutions.** While the 2004 reauthorization bill established two new performance award programs, these initiatives are very limited in scope and have demonstrated very little impact. As concluded in numerous national and international economic development studies in recent years, federal programs such as EDA need much broader and more aggressive policy incentives and approaches related to regional economic development. Congress should build upon the existing set of EDA multi-county EDDs to encourage, reward and facilitate regional development activities.

2) **Modify local cost-share rates for projects.** While it was not a revision contained in the 2004 reauthorization bill, regulations developed after its enactment increased local cost-share requirements based on new distress criteria. Many distressed communities have difficulty meeting the increased minimum match requirements and are unable to utilize the program. As a result, many communities are unable to develop the infrastructure necessary to create and retain jobs. If communities cannot fully participate and utilize the agency's program, due to onerous match requirements, EDA is not meeting its mission of investing in underserved and distressed communities.

3) **Restore EDA's Professional Staff Capacity in Regional and Headquarters Offices.** Since 2002, the agency has undergone a significant downsizing of its professional workforce. As a

result, EDA is starting to experience more difficulties in providing oversight and technical assistance and delays in grant processing. This affects not only the timely delivery of investment resources to distressed communities, but translates into increased costs as well.

According to the American Road & Transportation Builders Association (ARTBA), the cost of materials for construction increased significantly from 2003 to 2007: highway and street construction materials increased 43 percent; cement increased 37.4 percent; concrete block and brick increased 25.7 percent; iron and steel scrap increased 123.4 percent; and ready mix concrete 37.4 percent.

The longer communities are forced to sit and wait while EDA reviews and processes applications, reimbursement requests and program extensions, the more expensive it becomes to build and develop the infrastructure necessary to create sustainable jobs. Therefore, we encourage Congress to take actions necessary to maintain and rebuild the agency's six regional offices, including Economic Development Representatives (EDRs), and to restore the professional career staffing capacity needed at its headquarters office.

CONCLUSION

In closing, Mr. Chairman, I want to reinforce our strong support for a multi-year reauthorization bill that vigorously preserves EDA's current mission and program focus of helping bring economic opportunities to all of the nation's distressed communities. Through its toolbox of development assistance and investment programs, EDA serves as a vital resource for distressed areas striving to improve their local economies through encouraging private sector job growth.

The agency should retain its historic flexibility to assist all of the nation's distressed communities and regions, whether they are struggling to overcome long-term economic challenges or sudden and severe hardships. In addition, the agency should develop new and innovative tools to allow regions to adapt to changing global economic conditions and challenges, especially new incentives to foster regional collaborations and initiatives.

Thank you again, Mr. Chairman and members of the subcommittee, for the opportunity to testify today on the views of NADO and its membership. I would welcome any questions.

October 17, 2008

The Honorable Barbara Boxer
Chairman
Committee on Environment and Public Works
United States Senate
Washington, DC 20515

The Honorable James M. Inhofe
Ranking Member
Committee on Environment and Public Works
United States Senate
Washington, DC 20510

Dear Chairman Boxer and Senator Inhofe:

Thank you for the recent opportunity to testify on behalf of the National Association of Development Organizations (NADO) in support of the committee's efforts to reauthorize the Economic Development Administration (EDA).

As the premier national organization representing the national network of 520 regional development organizations, including the 375 multi-county Economic Development Districts (EDDs) designated and funded by EDA, we thank the members of the committee for their support of the agency. Given the array of issues and programs under the committee's jurisdiction, we appreciated the opportunity to share our insights concerning this small but highly effective agency.

Below, please find responses to supplemental questions submitted for the record.

1. **Most of our nation's urban regions have extensive professional economic development staff and capacity. In small metropolitan and rural regions, our communities rely heavily on EDA's economic development districts for professional planning and development assistance. What are your recommendations for improving the professional support from EDA to smaller communities so that they can compete on a more level playing field with major urban areas as well as compete in a changing global economy?**

   As indicated in research conducted by a number of leading organizations, including the Brookings Institution, Council on Competitiveness, the Rural Policy Research Institute and the Regional Plan Association, the primary drivers of the nation's, as well as the world, economy are becoming more regional in character and scope.

   For smaller rural regions to compete with urbanized areas both nationally and globally, incentives must be in place adequately encouraging small cities and towns to collaborate across jurisdictional boundaries.

   Providing stronger and broader incentives that reward and foster collaboration, partnerships and initiatives among local governments, through the national network of EDDs, as well as with the private sector, educational, non-profit and philanthropic institutions will ensure that EDA's limited economic development assistance resources have broad regional impact and promote and leverage economic development opportunities throughout a region.

ADVOCACY, EDUCATION, NETWORKING AND RESEARCH FOR THE NATION'S REGIONAL DEVELOPMENT ORGANIZATIONS
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For example, the agency's 2004 reauthorization bill established two new performance award programs. The initiatives are very limited in scope and have demonstrated little impact or ability to bring communities together in support of regional economic development initiatives. A more aggressive incentive program that brings all communities and economic development stakeholders across a region together through the EDD is needed.

2. **Can you explain in more depth the problems associated with EDA's lack of staff resources at the regional and local level with respect to its impact on local grantees? Have you noticed a loss in the level of service provided to you and other local governments? Please explain how you interact with EDA's Economic Development Representative and the impact they have in assisting your organization's economic development efforts?**

   Since 2002, EDA has undergone a sizable downsizing of its professional workforce. As a result, EDA is experiencing more and more difficulties providing oversight and technical assistance and delays in grant processing. This affects not only the timely delivery of investment resources to distressed communities, but translates into increased costs as well.

   While some reductions may have been appropriate and necessary, we believe the current staffing levels are putting significant stress and excessive burdens on the agency's regional offices and are resulting in reduced oversight, technical assistance and local knowledge about proposed projects. Economic development projects typically require precise timing, coordination of multiple funding sources and an understanding of the local dynamics and situation. Historically, EDA's regional offices and field staff have served as a vital link and valued partner between the national network of EDDs, our local communities and the agency. The remaining EDA staff continues to perform admirably, yet we fear they are being asked to perform double and triple duty.

   Until recently, Maryland lacked a field-based EDA Economic Development Representative. The EDR serves as a direct conduit between the EDDs and EDA; ensures that projects and applications are continually flowing through EDA's pipeline; provides technical assistance to EDDs on agency policies and procedures; helps package EDA investments with other federal resources; and acts as an advocate for the state within the agency.

   Our state experienced a noticeable decline in EDA resources during the period it was without an EDR. In addition, our direct line of communication with EDA was effectively severed and our ability to receive guidance and direction was significantly hampered.

Again, thank you for the opportunity to provide NADO's perspective on the important role EDA plays in promoting economic development in America's distressed and underserved communities. If you have further questions, please contact NADO Legislative Director Jason Boehlert at 202.624.8590 or jboehlert@nado.org.

Sincerely,

Leanne Mazer

Leanne Mazer
NADO Immediate Past President and
Executive Director, Tri-County Council for Western Maryland

Senator CARDIN. Thank you very much for your testimony.

Mayor Thoma.

STATEMENT OF HON. LARRY THOMA, MAYOR, CITY OF ELGIN, OKLAHOMA

Mr. THOMA. Thank you, Mr. Chairman, Ranking Member Isakson, Senator Inhofe and members of the Subcommittee, for the opportunity to testify today in support of the Economic Development Administration.

My name is Larry Thoma, and I am the mayor of Elgin, a small community in southwest Oklahoma, located north of the Fort Sill community. I am the immediate past president of the Oklahoma Municipal League.

My main point today, Mr. Chairman, is that the EDA is an essential funding resource and partner for small towns and rural communities across the United States that are working on long-term regional and local economic development strategies and projects. Without the gap financing and seed capital for infrastructure projects, our economic development blueprints would never get off the drawing board.

We have truly benefited from the great staff at EDA, especially with the Austin regional office and their regional director, Pedro Garza. These folks have been great public servants who understand the needs of our Nation's rural communities.

In addition to its valued project funding, EDA provides vital matching funds for a nation of economic development districts such as the Association of South Central Oklahoma Governments in my region, known as ASCOG. These multi-county organizations provide our small communities with much-needed staff support and economic development know-how.

I want to use just a couple of minutes to give you a first-hand story of how EDA helps small communities like Elgin, Oklahoma. Such examples as ours is the reason Senator Inhofe is seeking a multi-year reauthorization of EDA in his legislation, Senate Bill 3264. In our region, Lawton is the primary commerce hub and job center, with a population of more than 90,000. Yet, a lot of people choose to live in surrounding communities such as Elgin, where there is a low crime rate and an excellent school system, and a small town atmosphere with large city amenities nearby.

But due to the BRAC, which Senator Inhofe has worked very diligently to help us with, Fort Sill in our area is expected to gain over 10,000 people just in the next few years. As a result, Elgin is also planning to see a large surge in its population. This presents both great opportunities as well as challenges from a local government perspective.

Within the economic development arena, we are building the Fort Sill Industrial Park in Elgin. The park has a great access to the interState, State highway and rail line. It even has a live fire artillery range which is important for attracting military service forms working with Fort Sill. With EDA's assistance, this property will soon become one of the largest economic development projects in southwest Oklahoma. BAE Systems already occupies a recently constructed 10,000 square foot building in the park.

Plans are being finalized for construction of a much larger facility that the company plans to start leasing in October 2009. The building and facilities are expected to cost in excess of $21 million and BAE Systems plans to invest another $9 million in specialized equipment. Within the first 36 months of operation, the firm plans to employ at least 41 people with an estimated payroll of $1.7 million. They will continue to hire incrementally until they reach their production capacity with a total work force of 150 to 200 people.

These numbers may not raise eyebrows in large metropolitan areas, but for a rural community of 1,210 people, that is a significant development. Without EDA's public works and planning funding, Elgin could not even consider shouldering the cost of this kind of project by itself. We also could not implement a project like the Fort Sill Industrial Park without the technical and organizational support provided by ASCOG and their help, people like Blaine Smith and Ronnie Ward.

As with any project, planning is the key to any successful endeavor. But it also takes experts to implement the plan. Elgin lacks sufficient revenues to hire a full-time city manager, maintain an adequate staff responsible for grant activities and to hire a project manager for the development of an industrial park. EDA and its local planning partners are critical to small metropolitan and rural America. We must continue to invest more resources in these important institutions.

If America does not adequately invest for our future, our children and grandchildren will never enjoy the America that we all know and love. Jobs and trades continue to leave for foreign markets at an alarming rate. Communities such as Elgin are proving that with the proper strategic planning, local leadership, intergovernmental partnerships and community infrastructure improvements, we can compete on the global stage.

I urge this Committee and the Congress to fully fund the U.S. Economic Development Administration and adopt a 5-year reauthorization bill to provide the stability and policy direction needed for EDA. Thank you again, Mr. Chairman, Senator Inhofe and members of this Committee, for the opportunity to testify. I would welcome any questions.

[The prepared statement of Mr. Thoma follows:]

Written Statement for the Record

The Honorable Larry Thoma,

Mayor of the City of Elgin, Oklahoma

Economic Development Administration (EDA)

Reauthorization Hearing

Before the

United States Senate

Environment and Public Works Committee

Washington, DC

September 9, 2008

On behalf of the citizens of Elgin, Oklahoma and the great state of Oklahoma, thank you, Mr. Chairman, Ranking Member Isakson, Senator Inhofe and members of the subcommittee, for allowing me the opportunity to testify today in support of reauthorizing the U.S. Department of Commerce's Economic Development Administration (EDA).

My name is Larry Thoma. I am currently serving my eleventh year as Mayor of Elgin, a small city in southwest Oklahoma located just north of the Lawton-Fort Sill community. I am also the Immediate Past President of the Oklahoma Municipal League (OML), having served as served as OML President for two terms.

My main point today, Mr. Chairman, is that small town and rural communities like Elgin all across the nation are working on long-term regional and local economic development strategies and projects that would not be possible in most cases without the seed funding and gap financing of the US Economic Development Administration (EDA) and the regional leadership and expertise of the national network of 382 EDA-designated Economic Development Districts (EDDs) such as the Association of South Central Oklahoma Governments.

The story of our small city and surrounding region provides a compelling case for programs such as EDA. I believe examples such as ours are one of the reasons that Senator Inhofe is seeking a multi-year reauthorization of EDA in his legislation Senate Bill 3264. In our region, Lawton is the primary commerce hub and job center with a population of more than 90,000, yet many people chose to make their home in surrounding communities such as Elgin where we have a low crime rate, an excellent school system and a small town atmosphere with large city amenities nearby.

Elgin is less than an hour from Oklahoma City and the Will Rogers World Airport. As a result of the Base Realignment and Closure Act (BRAC), Fort Sill is scheduled to increase the area population by about 10,000 over the next 3-4 years. Elgin will undoubtedly experience some of that growth for the reasons stated above. More directly, Elgin expects to experience a surge in population due to the development of the Fort Sill Industrial Park located within our city boundaries.

The industrial park is located on approximately 300 acres of land bordered by Interstate 44 on the west, State Highway 277 on the north and Fort Sill's East Range on the South. A railroad line traverses through the park. The park is uniquely situated with immediate access to the nation's highway system, railroad system and a live-fire artillery range. Any company providing military goods or services would find the Fort Sill Industrial Park a prime location for operations. Before the industrial park began development, the site was a cow pasture owned and leased out for grazing land by the state's school land commissioners that offered little or no economic benefit to our city and region.

With EDA's assistance, this property will soon become one of the largest economic development projects in southwest Oklahoma. BAE Systems, Inc. already occupies a recently constructed building in the park. Plans are being finalized for construction of a much larger facility that the company plans to start leasing in October 2009. The buildings and facilities are expected to cost in excess of $21 million, and BAE Systems has also committed to invest another $9 million in specialized equipment.

Within the first 36 months of operation, the firm plans to employ at least 41 people with an estimated annual payroll of $1.7 million. They will continue to hire incrementally until they reach their production capacity with a total workforce between 150 and 200. These numbers may not raise eyebrows in large metropolitan areas, but for a rural community with a 2000 census population of 1,210, this is a significant development and represents unprecedented economic growth.

This is particularly astonishing when you consider the industrial park is in the mid-construction phase. Electric lines, natural gas lines and telecommunication lines have been installed parallel to the industrial road that remains partially completed but serviceable. Elgin is opening sealed bids today for installation and construction of the water lines, sewer lines and bridges that will service the site. When the work is completed within the next few months, we anticipate several private companies taking advantage of the park's unique offerings.

Like most other communities in rural or distressed areas, Elgin lacks the tax base and the financial wherewithal to pay for the basic infrastructure necessary in projects like the Fort Sill Industrial Park. Without a doubt, the greatest economic development obstacles we face are budgetary in nature. Without EDA's public works, planning and economic adjustment assistance funding, Elgin could not even consider shouldering the costs for such a project regardless of the potential future benefits. The direct and indirect technical and financial support delivered by EDA and the Association of South Central Government (ASCOG), the Economic Development District for our area, was the engine that drove this project's development.

As with any project, planning is the key to any successful endeavor. Elgin lacks sufficient revenue to hire a full-time city manager, maintain an adequate staff responsible for grant activities or hire a project manager for the development of an industrial park. We depend on ASCOG, our Economic Development District funded with matching funds by the EDA through its planning grant funds, to provide professional and technical assistance that would simply otherwise not be present in our part of the country.

EDA and its planning grant program are critical to small metropolitan and rural America and we must continue to invest more resources in these importance institutions. Economic development planning encourages a systematic method to identify and prioritize potential projects. With emphasis on developing high-quality projects expected to generate and retain good-paying private sector jobs in rural and distressed areas, our EDD has proven to be extremely valuable, professional and competent.

With ASCOG's assistance, Elgin received a $2.2 million matching grant from EDA to partially fund the installation of infrastructure within the Fort Sill Industrial Park, including water lines, sewer lines, bridges and roads. This EDA award sparked additional investments by the Comanche County Industrial Authority, the Oklahoma Department of Commerce and the Oklahoma Department of Transportation. Elgin committed to its part of the required financing by selling Tax Increment Financing bonds. The park's primary tenant, BAE Systems, Inc. recently purchased these bonds for $3.25 million. The funds will be used as Elgin's match for EDA funds.

As you may expect, a project of this magnitude and complexity did not get easier after the grant was awarded. Planning grant funding helped the EDD to provide the myriad of services necessary for identifying and overcoming unexpected obstacles. The funding allowed them opportunities to locate and procure additional resources and commitments to help ease the financial shortfall between the original estimates and increased costs for construction materials.

EDA remains the only federal agency with the exclusive mission of promoting private sector growth in rural and distressed areas. Without EDA assistance, areas such as ours will continue to experience an even greater disparity with larger communities who have the tax base, institutional know-how and financial resources to develop the infrastructure required, expected and demanded by private companies. Even when small communities have the ideal site like Elgin enjoys, we still need additional assistance through programs like EDA to ensure a legitimate opportunity for competing in today's economic markets.

In conclusion, I would be remiss if I did not address the bigger picture. Beyond the urban-rural, affluent-distressed issue is world competition. Continued and improved EDA funding is essential to help our small metropolitan and rural communities compete, both nationally and internationally. If America does not adequately invest for our future, our children and grandchildren will never enjoy the America that we all know and love. Jobs and trade continue to leave for foreign markets at an alarming rate. Communities such as Elgin are proving that with the proper strategic planning, local leadership, intergovernmental partnerships and community infrastructure improvements, we can compete on the global stage.

I urge this committee and the Congress to fully fund the U.S. Economic Development Administration (EDA) and to adopt a five-year reauthorization bill to provide the stability and policy direction needed for EDA.

Thank you again, Mr. Chairman, Ranking Member Inhofe and members of the committee, for the opportunity to testify today. I would welcome any questions.

Senator CARDIN. Thank you, Mayor Thoma. We again appreciate your being here and your testimony.

Each of you has given testimony as to the importance of the EDA programs in your community. In Maryland, we have urban areas and rural areas. The importance of EDA in Western Maryland has been well documented here today. Similar testimoneys could be given about the Eastern Shore of Maryland or Southern Maryland.

Ms. Mazer, you talked about getting the necessary planning and development assistance, particularly in the rural communities through the EDDs, the economic development districts. Other than increasing modestly the authorization level for the EDDs, do you have any other specific recommendations on how we can help rural communities better plan for international competition and the challenges of globalization as far as economic development is concerned?

Ms. MAZER. I think really it goes to two things. Obviously, having the resources to have professional planning and the CEDS process in place in the rural regions. But also, it really goes to how do we incentivize our partners in economic development to work together. I think a lot of it goes to, it is not a natural thing for some of those partners to work together. We bring them to the table when we are looking at setting regional priorities.

In Western Maryland, it never ceases to amaze me, when we sit down and look at the needs assessment through the CEDS process and we look at which communities have the biggest needs and which communities have projects that are ready to go, the regional consensus is very easy to come to. But when you look at the resources that are there, I think the performance awards programs that are present at EDA today probably just are not, very little impact is being seen from those incentive performance award programs. If we could do something through those performance award programs to give an incentive for those local governments to work together, that goes directly to their ability then to do projects that then translate to opportunities for businesses to compete globally.

Senator CARDIN. Mr. Secretary, Cumberland is a wonderful area. I have worked with their economic development people about specific programs. Is there a way that the economic development district could be better utilized to help a community such as Cumberland, which is struggling to keep jobs in competition with urban areas, and then are losing opportunities internationally? Is there a way that we can better strategize by the use of the EDA programs to help you in what you are doing in Maryland to help communities such as Cumberland?

Mr. EDGERLEY. I think there are a couple of things that could be done. First, the reauthorization will give stability and certainty, hopefully, and some expectation of the ability to plan for longer range projects that offer either infrastructure or some public work that is a locational incentive to outside investment. As Leanne said, giving the opportunity for the planning process to be robust and active gives those local officials, opinion makers, the opportunity to come together and prioritize where those investments should go.

Linkages much like ARC does with its regional funding are also important for the State of Maryland to step up and join with EDA

in co-funding revolving funds, co-funding important projects. We do this as a matter of course now. Formalizing that process is one thing I would commend to you, requiring that three-way partnership as opposed to just the two-way partnership for municipal, county, State and certainly Federal participation in the process.

Senator CARDIN. Thank you for that response.

I want to give each of you a chance to respond to my final question, which is that the Administration's budget would reduce the EDA budget by, I think somewhere around 40 percent. That is somewhat misleading, because most of the cuts would come out of the public works program projects. They would be the ones that would get the largest single reduction.

What impact would that have if we saw that type of a reduction in the Federal Government's commitment under EDA, what impact would that have in Maryland or in Oklahoma, in your city? I would welcome your comments on that. I think Ms. Mazer commented directly on it in her testimony. But if any one of you wanted to add more, I think it would be helpful. We are looking at an authorization level that will allow the appropriators the ability to appropriate the necessary funds.

Mr. Mayor.

Mr. THOMA. Sir, we opened bids today on our industrial park. Today is a landmark day in Elgin, because we opened bids on our industrial park, Senator Inhofe. It is a $5 million project. So not only is it a $5 million project when you look at the EDA funds, it is a $2.25 million, $2.5 million project. So not only is it a $5 million project on the industrial park, you can't just separate the $2.5 million on EDA, but you also have to look at the impact on our city. Because you have all those construction jobs. You are not even just looking at the impact of the industrial jobs that will come to the park two or 3 years down the road, you have to look at the impact today. In less than 30 days we could have construction jobs coming to our community. We are not talking about two to 3 years down the road. We are talking about 30 days down the road we could have construction jobs coming to Elgin.

My community exists off of, our sales tax base is $40,000 a month. That is a small community. We are talking about rural communities, 63 percent of their budget deals with rural communities. When you start talking about the impact, really does it affect it much, it really does. With all due respect, it really does, because these moneys begin to affect the small communities, when you start talking about the construction costs of these parks. I will start seeing the impact almost immediately. I won't see it two or 3 years down the road when the park is done, I will see them within 30 to 90 days.

So it does affect us. It affects us almost immediately. The cuts aren't 3 years down the road. They are soon.

Senator CARDIN. I appreciate that.

Mr. EDGERLEY. I was going to say some similar things, so I echo the comments of the mayor. I also would suggest that, as the Secretary mentioned earlier, that EDA offers the opportunity for scalability with respect to its programs. It is no time to think about scaling down anything that EDA does in our economy. I have been working with the agency for 32 years. I have seen it in all of its

forms except the early period. I am fortunate that the program predated me.

But I have also seen it used throughout its history for economic stimulus attributes, job creation attributes, strategic planning attributes, and now more than ever, EDA serves as either the opportunity or the barrier to allowing important, needy areas of our Country to compete with the outside world for important investments by the private sector. What I mean by that is that many rural areas and many needy areas lack the infrastructure to level the playing field. We have to do something that make sure that this balance comes into play.

I left Western Maryland to go to Montgomery County and participated with others in the creation of 120,000 jobs in 10 years. So I have seen the remarkable benefits of high growth, technology-rich areas, yes, supported by the Federal infrastructure in significant part, but I have also worked in those challenged areas that need this help to level the playing field.

Now, it doesn't stop there, because companies, despite what we might think about getting ready for development, companies in our Country still make their own locational decisions. If we don't have the right investment in infrastructure, business parks, broadband and others, we will foreclose on the opportunity for rural America to be at the table as our jobs enter the new economy.

Senator CARDIN. Thank you.

Senator Isakson.

Senator ISAKSON. Echoing on that point, if you build it they will come is absolutely critical in economic development. If you don't have the infrastructure, both in broadband, as you mentioned, the infrastructure in terms of water and sewer, the park like you are developing, then you are not going to get the economic development and the investments. I want to echo that wholeheartedly.

Second, I appreciate your comment on the question about the excess funds in reserve as not necessarily a bad thing. It is a bad thing if you are using the revenue to underwrite the department. But it is a good thing to have to deploy for economic development at a moment's notice, almost.

Ms. Mazer, you made a comment I want to make sure I understood. You talked about strengthening local control and then you referred to EDA's continuing audit and reporting requirements on fully revolved funds. Are they requiring you to continue to report after the money has been deployed and repaid?

Ms. MAZER. Absolutely. Those grants are open forever. And we report semi-annually or annually forever.

Senator ISAKSON. Forever as in it never stops?

Ms. MAZER. Yes.

Senator ISAKSON. Well, that raises an interesting issue. I was reading the audit report and the IG was talking about inadequate reporting in part of what they said. Then you are talking about reporting ad infinitum, I guess, once a loan has been made. I think there is a happy balance somewhere in between. So I will look into that for you.

Ms. MAZER. Thank you.

Senator ISAKSON. That is a lot of redundancy.

Mr. Edgerley, you referred to the East Baltimore, Inc. biopark. Talking about the multiplier effect, is that thing under development now, the biopark?

Mr. EDGERLEY. It is indeed. It comprises about 80 acres that were acquired in partnership with the city, the State and the private sector. An RFP was done to attract a private developer to the area, so essentially, that land, dozens and dozens of blocks north of Johns Hopkins Medical Center, were acquired, many people relocated and that area of blight was eliminated to create an epicenter for the Hopkins campus to grow and contribute to the community as an employment center, strategically located in Baltimore around Hopkins.

The first building is up, there are tenants in that building. It has had, as is normal in a sophisticated project, a few struggles. But we continue to heavily invest in it. We are looking forward to it building an incubator in various communities serving kinds of commercial enterprises as time goes on.

Senator ISAKSON. How much was the EDA investment originally?

Mr. EDGERLEY. I don't have the answer to that question, but I will be happy to get it for you and the Committee.

Senator ISAKSON. Were you around when Rouse re-did the area of Baltimore? The Rouse Corporation?

Mr. EDGERLEY. The mall area? Yes.

Senator ISAKSON. Was EDA any seed money in that redevelopment, do you know?

Mr. EDGERLEY. That I don't know. I was around, not as Secretary of DBED, but I was in Montgomery County.

Senator ISAKSON. Mayor Thoma, I would just say that one of the important things in the success stories of EDA and economic development is good leadership. It is very obvious you are providing that for Elgin, Oklahoma. Senator Inhofe has bragged about you on numerous occasions. I am glad we had a chance to meet you in person.

Thank you, Mr. Chairman.

Senator CARDIN. Senator Inhofe.

Senator INHOFE. Thank you, Mr. Chairman.

First of all, Ms. Mazer, I know that you are interested in a reauthorization that would expand local participation in all this. You are probably familiar with my bill, perhaps, the 5-year reauthorization, which doesn't go as far as you would like, I am sure. But is it a step in the right direction?

Ms. MAZER. Absolutely. We were very appreciative of your dedicated leadership and support of EDA. We think the bill is a great place to start. We are particularly pleased, obviously, to see the increased authorization levels over that of the Administration's proposal and we absolutely, sincerely appreciate your attention to and support of the planning program part of the bill.

Senator INHOFE. Good. Thank you very much. As you know, there isn't time to get in to do this the normal way we would, where we would be able to sit down and go over these things. You, Mr. Secretary, have already made some statements about some of the improvements that you would like, and those will be all noted.

So Larry, welcome again. I think that you stated it very well, you have a community of about 1,200 people. There are lots of commu-

nities in Maryland and throughout America that are that way. I think that the smaller the community, the greater the impact is of something like this.

I remember when you and I talked about the $2.25 million that it would take to accomplish what we are now accomplishing. You didn't mention the size of this new park. It is 150,000 square feet.

Mr. THOMA. It has actually been bumped up. The size has varied over the last little while. It has gone from 150,000 to 160,000 square feet.

Senator INHOFE. Has it? That is just since last week when I was there.

Mr. THOMA. Yes. They fluctuate with the money. They have kind of gone from 150,000 to 175,000, I think they are back down to 165,000 square feet. It may change tomorrow.

Senator INHOFE. But the point is this: I don't think you can sit there and tell us the economic impact of this thing, what it is generating, what the future will be. We don't know, when you look at the first element of the SCS system being assembled there what impact that would have on future elements. But I think it would be very positive. I don't see any way that we won't be in real serious competition as a result of the great asset that is being built there.

While you are the mayor of Elgin, Oklahoma, nearby Lawton, 100,000 people or so, all the communities around there are affected to a greater or lesser degree. Is there anything else that you, since you came a long way, the longest of anyone on this panel to be with us today, that you would like to share with us concerning the impact of this EDA grant that started this whole thing, and what the future looks like for Elgin, Oklahoma as a result of the EDA?

Mr. THOMA. Communities my size, we are a small community and we struggle. I have a full-time job, very part-time mayor. I can't hire a full-time city manager. I spend a lot of time being mayor. There is no way that we can do this by ourselves. ASCOG has graciously, with Blaine Smith's approval, has loaned us Ronnie Ward, who is a planning coordinator over at ASCOG. He has effectively become our city manager through EDA's assistance.

So with their help, we have actually planned this park. We have had to hire an engineer. But all this is wrapped up through EDA funds. There is no way that this Fort Sill Industrial Park, and you have been there, Senator, on several occasions, there is no way any of this could have gone off successfully without EDA funds. We have since passed a TIF, a tax increment financing district, we have gotten some ODOT money. There is some Commerce money involved. But all of this started with the seed from EDA.

Senator INHOFE. And an greater extent is the private sector investments, now, it overshadows all the public funds for this, county or State or Federal, in this project.

Mr. Chairman, I could have used, you were kind enough to let me choose my witness here, I could have used a number of other projects that are successful in Oklahoma. But I think this one is unique, in the size of the community, the effect on the entire part of the State, southwest Oklahoma. I have said several times, in fact, I said even when I addressed the chamber convention way up northeast of you in Tulsa, that that is singularly perhaps the best

thing that has happened to the State of Oklahoma. Because that is the kind of impact it has. So I thank you, all of our witnesses, but particularly you, Larry, for coming up here and sharing your story with us.

Mr. THOMA. Thank you, Senator.

Senator CARDIN. Senator Inhofe, you chose well.

Senator INHOFE. Thank you, Mr. Chairman.

Senator CARDIN. We very much appreciate all three of the witnesses. I think that you have really underscored the point that Senator Inhofe made, and that is that we need to get this reauthorized before Congress adjourns, for the predictability of the program. But also, there is really not any disagreement here. We have a few areas, I am sure, we will have to negotiate.

But there is a clear desire to make sure that these programs continue. I think, Mr. Mayor, you pointed out that this is not about 3 years' planning, it is about jobs today and economic growth today. I think also the three of your testimoneys underscore the importance of maintaining, and I hope expanding, the EDA's presence in our community, certainly not cutting it.

I thank you all for your testimony. It will be helpful to us in trying to get this issue resolved before Congress adjourns. With that, if there is nothing further, the Subcommittee will stand adjourned.

[Whereupon, at 11:20 a.m., the subcommittee was adjourned.]

Hearing on

"Economic Development Administration Oversight"

Before the United States Senate

Committee on Environment and Public Works

Subcommittee on Transportation and Infrastructure

Testimony of The Honorable Betty Knight
President, National Association of Regional Councils
Commissioner, Platte County, Missouri
Board Member, Mid-America Regional Council

September 9, 2008

Full Committee Chairman Boxer and Ranking Member Inhofe, Subcommittee Chairman Baucus and Ranking Member Isakson, and distinguished leaders of the Subcommittee, I am Betty Knight, Platte County, MO Commissioner, President of the National Association of Regional Councils (NARC) in Washington, DC and Board Member of the Mid-America Regional Council in Kansas City, MO. Please accept this written testimony for the Congressional Record on behalf of the National Association of Regional Councils (NARC) in response to the vital work the Economic Development Administration (EDA) makes possible.

The National Association of Regional Councils is a national non-profit trade organization that serves as the national voice for regionalism, advocating for multi-regional cooperation as the most effective way to address community planning and development opportunities and issues. NARC is governed by local elected officials and represents member organizations composed of multiple local governments that work together to improve America's communities - large and small, urban and rural. Through advocacy and assistance, NARC's mission is to increase funding and authority for regional councils, regardless of their size, to strengthen American regions and communities in transportation, economic and community development, homeland security and the environment.

Regional councils (RCs) deliver an array of federal, state and local programs that provide planning support and technical assistance to local governments in the areas of transportation, economic and community development, homeland security and the environment. The network of nationwide regional councils includes organizations such as Metropolitan Planning Organizations (MPO), Councils of Government (COG), Rural Planning Organizations (RPO), Economic Development Districts (EDD) and Local Development Districts (LDD). Regional Councils and MPOs are created by compact and enabling legislation as consortia of local governments. As such, regional councils and MPOs represent local elected officials from cities, counties, townships, and villages. Their mission being the delivery of services and programs for economic development, first responder and 911, health care, infrastructure development, aging services, air and water quality, land-use planning, work force development, and transportation at a regional level.

The National Association of Regional Councils (NARC), representing regional planning organizations – regional councils, councils of governments, and metropolitan planning organizations – and their local elected officials nationwide, strongly urges the reauthorization of the Economic Development Administration (EDA) before the current authorization expires at the end of September 2008. EDA reauthorization is essential, particularly in these difficult economic times, to providing cost-effective programs, efficient investment of federal resources, creation and retention of jobs, generation of important tax revenues in distressed communities, and tools to achieve regional and global competitiveness.

EDA programs are an invaluable resource to our communities to implement regional strategies that promote innovation and competitiveness. EDA's role in creating and maintaining jobs while stimulating industrial and commercial growth in economically distressed areas, both urban and rural, is critical to the sustainability of our regions and local governments, many of whom are facing fiscal budget restraints. EDA programs are

also flexible, allowing funding to be applied towards long-term economic development planning, as well as sudden and severe economic distress, meeting the nation's needs on multiple levels through one comprehensive program.

As you are keenly aware, the quality of our national infrastructure is declining in many areas due to a lack of funding. Roads, bridges, local transit and air service need substantial attention and investment. EDA Public Works grants are a key component to these improvements by funding the construction and rehabilitation of essential public infrastructure and facilities. Additionally, EDA Planning grants are a linchpin for local governments and regional planning organizations to cooperatively address economic development challenges on a regional basis through multiple jurisdictions. Overall, EDA funding must reflect the current need of our regions and, therefore, NARC recommends EDA be funded each year, at a minimum, with the fiscal year 2008 authorized levels of $500 million.

Reauthorizing EDA and maintaining its current portfolio of programs with increased funding represents sound public policy, empowering local governments to help improve the quality of life within communities around the country. We are encouraged by Senator Inhofe's proposal (S 3264) and hope more progress is made in the coming weeks.

The National Association of Regional Councils (NARC) and its member organizations offer its assistance moving forward. Please refer to the talking points below for additional NARC information on the importance of EDA reauthorization. Thank you for allowing me to submit these comments.

National Association of Regional Councils (NARC)
Economic Development Administration (EDA) Reauthorization
Talking Points

- The National Association of Regional Councils (NARC) supports the preservation of the purpose and impressive legacy of EDA's highly valued and respected programs, and recommends sufficient and sustained funding for the Economic Development Administration (EDA) reauthorization, which is set to expire at the end of FY2008, at the FY2008 authorized level of $500 million.

- With tight budgets and limited staff, many regional councils and EDDs, especially those in rural areas, have a difficult time finding resources to improve community infrastructure or develop strategic plans for economic and community development, moving these priorities lower on the growing list of demands.

- Furthermore, EDA dollars are an even more critical resource in the face of the fiscal budget crisis currently affecting most state and local governments.

- Supporting EDA funding and programs are critical and necessary for the following reasons:
    - They are a directly tied to private sector job growth.
    - They are critical to the nation's distressed areas across the country
    - They assist local governments with economic development planning and implementation where there are scarce resources for such activities.
    - They stimulate local and regional economies.
    - They are flexible in nature – funding can be applied towards long-term economic development planning, as well as sudden and severe economic distress.

- EDA represents an important and efficient investment of public sector dollars on the local level, and helps local governments improve the quality of life for citizens in distressed areas.

- EDA's programs and grants have spearheaded the development of the business incubators, creating a platform for a variety of entrepreneurs to grow small business and revitalize communities with a strong flow of commerce and jobs.

- The EDA approach is a cost-effective, efficient investment of federal resources with programs paying for themselves through the creation of jobs and generating tax revenues in distressed communities. Moreover, the bottoms-up approach reflected in the comprehensive economic development planning process ensures the development of a planning strategy that reflects input from the local government level.

- The quality of roads and bridges is declining in many rural areas due to lack of funding. Federal funding for rural roads, bridges, local transit service and air service needs to increase substantially. Public Works Grants are a key component of the work NARC members do with EDA funding. These grants support the critical construction or rehabilitation of essential public infrastructure and facilities necessary to generate or retain private sector jobs and investments, attract private sector capital, and promote regional competitiveness – priorities for many NARC members. These grants require increased support.

- NARC supports an increase in overall funding for the global climate change initiative, which intends to support projects that contribute to sustainable "green" construction and resource conservation. NARC members are actively engaged in making their regions more sustainable for the future so that dollars spent will have a positive impact on the environment.

- EDA planning grants are the linchpin for local governments to cooperatively address economic development challenges on a regional basis, working with multiple jurisdictions. For this reason, our members are asking that individual planning grants be increased from $55,000 to $75,000 – currently economic development districts (EDDs) are receiving the same $52,000 per year that they received 25 years ago. This is particularly important as the true purchasing power of regional planning organization money has been eroded over the past 30 years to less than 15 cents on the dollar with inflation costs continuing to rise.

- EDA should take the initiative to explore opportunities for greater integration of local and regional planning requirements imposed by federal departments and agencies. A priority should be a demonstration program focused on multipurpose regional organizations faced with multiple planning requirements.

- The EDA revolving loan fund program is a powerful tool for addressing the credit gaps and providing the funding necessary to improve many underserved and rural communities.

- EDA should provide additional incentives and/or rewards for those who utilize EDA funds for projects that are done ahead of or on-time and below budget.

- NARC looks to bolster regional economic development opportunities by examining the consolidation and streamlining of government programs within various government

agencies – Department of Commerce, Department of Agriculture, Department of Housing and Urban Development, etc. – that will make processes more effective and efficient.

- EDA's commitment must continue in both urban and rural areas.

- Estimates show that EDA declined more than $170 million in funding requests for more than 115 public works projects that were "ready to go" and involved significant job creation initiatives due to a lack of funds. These unfunded projects were projected to match more than $219 million in state and local funds and more than $7.2 billion in private sector investments, resulting in the retention and creation of more than 47,000 private sector jobs. (NADO statistic)

- Reauthorizing EDA and maintaining its current portfolio of programs represents sound public policy, and will empower local governments to help improve the quality of life for citizens and assist distressed communities

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