



Advocacy, Education, Research and Training for the
Nation's Regional Planning and Development Organizations

WRITTEN STATEMENT FOR THE RECORD

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LOWER RIO GRANDE VALLEY DEVELOPMENT COUNCIL
AND FIRST VICE PRESIDENT OF THE
NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
BEFORE THE
HOUSE TRANSPORTATION AND INFRASTRUCTURE SUBCOMMITTEE
ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS
AND EMERGENCY MANAGEMENT**

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EXECUTIVE SUMMARY

- The current portfolio of 35 federal community and economic development programs generally provides states and local communities with the flexibility, tools, incentives and resources necessary to pursue community improvement and job creation initiatives. While we agree with the Administration that every federal program should be reviewed and evaluated on a continuous basis, the primary weakness of the current system is a lack of financial resources to assist the thousands of local communities who are striving to build the physical and organizational capacity required to remain economically competitive.
- As the lead federal economic development agency, the Economic Development Administration (EDA) and its local partners have a proven and documented record of exceptional performance and accountability. As concluded in a comprehensive evaluation by Rutgers University and a consortium of research organizations, EDA projects help distressed communities create quality private sector jobs, leverage additional public and private sector resources, and respond to local conditions and circumstances. This is reinforced by the overwhelming bipartisan congressional and presidential support of the final EDA reauthorization bills in 1998 and 2004. It is also reflected by the recent induction of EDA into the prestigious Balanced Scorecard Hall of Fame™, joining only three other federal agencies.
- Inadequate public infrastructure remains the most significant road block to economic development in underserved and distressed regions, according to a national focus group conducted by NADO. With growing demands and pressures to build and upgrade the nation's public infrastructure, there remains an intense demand for planning, technical assistance and development resources to support local community and economic development efforts. The President's 2006 budget reduces the federal share in this effort.
- The President's economic development restructuring proposal eliminates the proven and essential EDA economic development district planning program, a vital resource for the nation's distressed and rural areas. As demonstrated in a comprehensive evaluation by the Center for Urban Studies at Wayne State University, the national network of 320 multi-county planning and development organizations has used the EDA planning program to establish an impressive record of facilitating and leading a comprehensive 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."

Thank you, Chairman Shuster and members of the subcommittee, for the opportunity to testify today on the federal policy and program issues related to local community and economic development, including the President's reform proposal *Strengthening America's Communities Initiative*.

My name is Ken Jones. I am the Executive Director of the Lower Rio Grande Valley Development Council, headquartered in McAllen, Texas. I also currently serve as First Vice President of the National Association of Development Organizations (NADO). My professional background includes 30 years in regional and local economic development, including 13 years in my current position.

In my testimony, Mr. Chairman, I plan to discuss the importance of the current portfolio of federal community and economic development programs. I will highlight the proven and documented success of the Economic Development Administration (EDA) in helping distressed communities establish the strategies, infrastructure and capacity needed to pursue economic growth opportunities. I will outline the intense demand for planning, technical assistance and infrastructure development resources that are needed to support and sustain private sector growth job. Finally, I will address the vital expertise and leadership provided by the national network of EDA-designated Economic Development Districts.

ABOUT NADO AND THE LOWER RIO GRANDE VALLEY DEVELOPMENT COUNCIL

The **National Association of Development Organizations (NADO)** provides advocacy, education, research and training for regional planning and development organizations primarily serving the 82 million residents of small metropolitan and rural America. The association, founded in 1967 as a national public interest group, is a leading advocate for a regional approach to community and economic development. NADO is part of the intergovernmental partnership among federal, state and local officials.

NADO members—known locally as councils of government, 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 community leaders and citizen representatives, governs each group. Associate members of NADO include state and local agencies, educational and nonprofit organizations, businesses and individuals.

The **Lower Rio Grande Valley Development Council (LRGVDC)** is a regional development organization serving the three southernmost counties of Texas, including Cameron, Hidalgo and Willacy counties. The multi-county region covers 3,019 square miles and a rapidly growing population of more than one million residents. Membership in LRGVDC consists of the governing bodies of each of the three counties, 40 municipalities, 14 educational institutions, 29 special purpose districts, one grassroots representative and ten members-at-large.

The organization provides administrative, professional and technical assistance to its local communities and governments. LRGVDC is an Economic Development District designated and funded by EDA, the Metropolitan Transportation Planning Organization for Hidalgo County and the Area Agency on Aging for the Lower Rio Grande Valley. The organization is involved in a variety of other initiatives, such as administering small business finance programs, assisting local governments with criminal justice, border health, homeland security preparedness, solid waste and water resource planning, managing local 911 services, and running transit systems for both urban and rural areas. Under a state program, LRGVDC also hosts a regional police academy and training center.

THE FEDERAL ROLE IN COMMUNITY AND ECONOMIC DEVELOPMENT

First, Mr. Chairman, the current portfolio of 35 federal community and economic development programs generally provides states and local communities with the flexibility, tools, incentives and resources necessary to pursue community improvement and job creation initiatives. While we agree that every federal program should be reviewed, evaluated and updated on a continuous basis, the primary weakness of the current federal system is a lack of financial resources to assist the thousands of local communities who are striving to build the physical and organizational capacity required to remain competitive in today's constantly changing marketplace.

NADO and its national membership of regional development organizations are deeply concerned that the Administration's proposal would cut \$1.8 billion in federal funding each year for local community and economic development programs. It would eliminate essential federal assistance for community enhancement projects—primarily through the abolishment of HUD's Community Development Block Grant (CDBG) program—while establishing a new program focused almost exclusively on job creation initiatives. In addition, we are extremely concerned about the elimination of the EDA planning program for economic development districts. This modest but highly effective partnership program provides communities and regions with the expertise, incentives and leadership needed to plan and implement complex community and economic development strategies and projects.

While the Administration has criticized the current portfolio of 35 federal programs as cumbersome, duplicative and unaccountable, the members of NADO overwhelmingly disagree that the consolidation and merging of these diverse programs is the only answer. To start, it is necessary to outline the distinct differences in the mission and goals of community development versus economic development.

We believe community development is aimed at implementing a broad range of projects and initiatives that improve the overall quality of a community and region. This is particularly important in distressed communities who typically lack the fundamental building blocks needed to make a community more livable and attractive to the private sector. These community readiness activities usually involve developing basic public infrastructure to serve residents and businesses, establishing local leadership and civic capacity, promoting entrepreneurship and cultural offerings, enhancing access to business development capital, obtaining affordable and quality housing, education and health care services, and more recently, offering modern broadband and technology services.

Economic development is traditionally defined as activities and projects that are directly related to private sector job creation and retention. Both community and economic development projects are vital to the success of local communities and merit strong federal support. It is impossible for the federal government to counteract the overwhelming macroeconomic forces affecting local communities. However, federal programs such as EDA, CDBG and USDA rural development play a vital and specific role in helping communities rebound from economic challenges, replace lost jobs and gain hope for the future. Most importantly, programs such as the EDA planning program support and reward sound regional planning with realistic input and thinking about the future of local communities.

While the members of NADO strongly support the Administration's focus on program performance and accountability, we believe that a more thorough review and analysis is required before sound and effective programs such as EDA, CDBG and USDA's RBEG and RBOG accounts are abolished. In addition, it is important that the federal government not place such an unbalanced focus on demanding unrealistic outcomes and results for each and every project of these agencies. By definition, almost all of the federal economic development investments in distressed areas involve a certain level of risk, otherwise the marketplace would have already filled the demand and need. It is one issue to implement

rigorous performance and financial accountability standards for federal grantees, it is another to create a risk-adverse culture that shies away from addressing challenges and opportunities.

We remain concerned that the Administration is basing its restructuring proposal on the findings and conclusions of the Office of Management and Budget's (OMB's) Program Assessment Rating Tool (PART) process. Of the 18 federal programs slated for elimination, OMB only completed a review of half the programs. In addition, EDA received the second highest OMB rating of moderately effective, yet the agency is still being abolished and replaced with an unknown and undefined proposal.

We must also note that documents distributed by the US Department of Commerce say "the Administration would make these proposals regardless of the budget situation." While we recognize the importance of public accountability and prioritization of taxpayer resources, there is no disputing the overwhelming needs facing our nation's local communities. At a time when nearly every American business and community is confronting intense competition from emerging and underdeveloped nations the federal government should be expanding its resources and assistance, instead of cutting community and economic development grants by nearly 40 percent. Our distressed regions need national leadership, models of innovation and resources for locally-led projects and initiatives – instead they are facing more unfunded federal mandates and directives without accompanying federal matching funds.

Instead of abolishing the set of 18 existing programs, cutting federal assistance and creating a new federal bureaucracy, the Administration, Congress and key constituency organizations should work together to form a senior-level interagency working group and coordinating committee. This model retains the expertise and capacity of each federal agency, while promoting enhanced partnerships, cooperation and collaborations at all levels of government. The concept is already working in the 13-state Appalachian region as a result of legislation developed and adopted by this committee in 2002.

EDA HAS PROVEN RECORD OF EXCEPTIONAL PERFORMANCE AND ACCOUNTABILITY

Second, Mr. Chairman, the Economic Development Administration 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 growth 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 poorer areas.

By eliminating EDA, the members of NADO believe the Administration's proposal would severely weaken the federal capacity to help distressed communities over the long term. EDA has accumulated an inspiring record over the years in assisting areas that were struggling to overcome both long-term economic poverty and sudden and severe hardships. Through its diverse program toolkit, the agency is uniquely positioned to help areas recover from military base closures, manufacturing plant closings, natural disasters and declines in natural-resource based industries like coal, fisheries and timber.

EDA has also nurtured and developed important partnerships at the federal, state, regional and local levels. These relationships are an essential part of carrying out the agency's traditional "bottom-up" philosophy. As reinforced in various academic studies and evaluations, EDA programs and investments are efficient and cost-effective because they originate from a local planning process, require a substantial financial match from local grantees and focus on private sector job creation.

As noted, EDA was one of only three federal community and economic development programs rated as moderately effective by OMB. This is high praise from the President's budget office. The value and effectiveness of EDA programs and investments has been reinforced in comprehensive program evaluations conducted by Rutgers University and a consortium of research organizations. This in-depth series of studies examined the agency's public works, small business development loan fund and defense conversion programs.

Since its inception, the agency has created more than four million private sector jobs and leveraged in excess of \$130 billion in private sector investments in distressed communities. In 2003 alone, according to the EDA's annual report, the agency helped create and retain more than 100,000 private sector jobs and attract over \$10 billion in private sector investments. These are impressive accomplishments considering the agency has an annual budget below \$350 million and that agency projects must be targeted to the nation's most distressed areas.

The commitment of EDA money to a project often serves as the glue for a project and makes it a reality. It also attracts and leverages a significant ratio of private sector involvement. According to the Rutgers study, the average EDA infrastructure investment has been leveraged historically ten to one by the private sector. Under the leadership of Assistant Secretary Sampson, the agency has set an ambitious goal of a private sector leveraging ratio of 22 to one. More importantly, EDA projects help distressed communities create long-term jobs at an average cost of \$3,058 per job, among the lowest rates in government. The number of jobs created typically doubles in the six years after project completion. In addition, the Rutgers report underscores that the near-perfect on-time completion of EDA public works projects is the direct result of the planning phase that precedes project development and selection.

The EDA revolving loan fund (RLF) program is also among the most powerful and successful economic development 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, nearly 500 locally managed RLFs have provided business capital to thousands of new and existing companies that have difficulty securing traditional bank financing.

The Rutgers 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 loaned by an EDA RLF an average of \$4.50 is matched by private lenders.

NADO members are concerned that the President's new grant program would shift the focus away from successful programs such as EDA's technical assistance, economic adjustment assistance and public works programs. Under the Administration's plan, the fate of the existing network of RLF intermediaries is unclear. In addition, it is unknown whether regions and local communities would be eligible to use the new program grants to recapitalize existing RLFs or to establish new loan funds based on the proven and tested EDA RLF model.

As noted previously, EDA's mission, value and effectiveness has been validated repeatedly by Congress and numerous independent studies and program evaluations over the years. More importantly, the impact of EDA has been positively experienced in hundreds of urban, small metropolitan and rural communities that now have the infrastructure and capacity to strengthen their local economies. The same applies to programs such as HUD's CDBG fund and USDA's rural development mission area.

In my three-county region in south Texas, EDA has played a substantial role in creating quality, private sector jobs. One example is the McAllen Foreign Trade Zone, which has continuously ranked among

the most active foreign trade zones in the nation. The McAllen Economic Development Corporation, a partner of my organization, has used EDA assistance to improve local infrastructure, resulting in the creation of nearly 6,000 jobs within a highly distressed area.

Nationally, there are numerous examples of the positive impact made by EDA economic adjustment assistance, infrastructure and technical assistance investments in impoverished areas. In Northeast Mississippi, an investment of \$1.5 million in a water supply project helped the region's struggling furniture manufacturing industry. By helping the water district expand its capacity, one local furniture factory added 300 new jobs, another furniture plant was able to retain 260 jobs and a local distribution center was established. Before the funding was secured for this project, commercial developers delayed the implementation of plans to locate or expand production in this area.

In Montana, an EDA investment of only \$1.2 million helped to save 466 existing jobs and create 78 new positions in a distressed area around the City of Billings. With matching money from the city, the project involved the purchase of land, the construction of a new industrial access road, and the relocation of a city maintenance facility which was needed to allow a large food distribution center to expand. This project was only made possible with the EDA commitment and the planning and technical assistance provided by the Beartooth Economic Development District.

EDA invested nearly \$3 million in infrastructure to sustain another major industry in Montana. A local company constructed a \$550 million plant in Silver Bow, a city just west of Butte. The company converts metallurgical-grade silicon into silane gas and polycrystalline silicon products including rods and chunks. These products are then sold to other companies that use the material to produce single crystal wafers, which are later sold and used by companies, such as, Motorola, Micron and Intel to make semiconductor devices such as memory chips and microprocessors. Currently, 220 people are employed at the plant and an additional 60 jobs will be created in this small city. The average annual salary of the workers is \$55,000.

In Illinois, the Southeastern Illinois Regional Planning and Development Commission served as a key partner with the Hamilton County Economic Development Commission and Hamilton County to leverage a modest EDA investment into a successful project. By bringing together local, state and federal resources, the group was able to convert an abandoned coal mine into a state-of-the-art industrial park with full service rail access.

Located in a rural county of 6,621 residents, the industrial park is on the property of the former Consolidation Coal Company's Wheeler Creek Mine. The park is surrounded by a rail loop that can support full train units, but the loop was disconnected from the main line when the spur was removed in the 1990's. Leaders in county government, economic development and private industry realized the potential of the site, and began to raise the \$3.7 million necessary to restore the site's rail access and upgrade a township road to handle industrial traffic.

With seed funding of \$380,000 from EDA, the group was able to secure the remaining funds from other federal, state and local funds to rebuild the rail spur. While the project is still in progress, the site has already attracted three businesses and pledges from several others. The project is expected to create 37 new jobs and retain another 33 in this highly rural area. In addition, the private sector is investing in excess of \$3.5 million in equipment and facilities.

In South Carolina, Chester County faced difficult economic realities in the mid 1970s and early 1980s. The textile industry was declining and local mills began closing. The county's unemployment rate soared into double digits and the local population remained stagnant. However, the Catawba Regional Council of Governments and county officials began investigating the feasibility of taking advantage of

an untapped development corridor near a major interstate. The area already had rail service, a major natural gas line and a central water supply line. To be attractive to industry, the group needed to add sewage treatment capacity.

When a major grocery distribution center expressed interest in the area, an innovative funding package was created to implement the plan. With support from EDA, CDBG and the state department of transportation, an extensive sewer collection and treatment system was developed and expanded. This major project was completed in the early 1980s and led to several service extensions as new industries and businesses located in the area. In the late 1990s, a second EDA grant was used to provide service to a \$50 million high tech industry and further expand the capacity of the sewage treatment plant to 500,000 gallons per day.

In the ensuing years, EDA's initial contribution helped attract and support a number of additional commercial and industrial businesses that moved into the area near the interstate. These include eight industries which have invested \$261 million and created 760 new jobs in the distressed county. Five restaurants, five motels and several other businesses now cluster around the interchange and serve area businesses and travelers. Through these long-term planning and development efforts, the county's unemployment rate has stabilized and the county is now experiencing continued population growth.

In addition to EDA projects, our region and other communities across the state of Texas and the nation also benefit tremendously from HUD's CDBG program, USDA rural development programs and the entire set of federal community and economic development programs. The primary use of Texas CDBG funds, under the Governor's small cities program, has been to assist communities with basic water and sewer needs. Even in today's modern world, we are working continuously to provide residents and communities with first time access to clean water and proper sewer systems.

According to the Texas Water Development Board's recent water and wastewater studies, the state of Texas has approximately 3,433 cities and unincorporated communities that have inadequate water and wastewater facilities. Of the 1,100 communities not located on the US-Mexico border, the estimated need to either provide first-time services or bring existing systems up to current regulatory standards is \$3.77 billion. These systems would serve more than one million people. Of the 2,333 communities along the border, the cost estimate is nearly \$800 million for systems designed to serve 484,900 residents and countless businesses. Until underserved and impoverished areas have even the most basic of public services that are taken for granted in wealthier communities, they will struggle to be full participants and contributors in the nation's mainstream economy.

Economic and community development is an exhaustive and lengthy process that takes organizational commitment and capacity. With the leadership, partnerships and visions generated by EDA and the network of economic development districts, distressed areas such as my region in Texas and the Richburg area in South Carolina can overcome both chronic poverty and more sudden and severe market shifts that hurt local economies. However, it demands regional strategic planning, cooperation among public and private sector officials at all levels, and the ability to package various funding sources.

INFRASTRUCTURE DEVELOPMENT REMAINS MAJOR ROADBLOCK TO LOCAL ECONOMIC DEVELOPMENT

Third, Mr. Chairman, inadequate public infrastructure remains the most significant road block to economic development in small town and rural America. This commonly held view was reinforced during a national e-forum attended by more than 210 regional development planners, local elected officials and economic development professionals during NADO's conference in August 2004.

EDA has been recognized as a national leader and innovator in the economic development field throughout its history. Many cutting-edge practices have emerged from the agency's public works program, 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.

Unfortunately, funding for EDA's public works program, along with most other federal infrastructure grant programs, continues to decline each year. Despite the leadership and commitment of this committee and the increased funding levels included in the agency's reauthorization law, the public works budget has decreased from \$286 million in 2001 to \$166 million in the current fiscal year. At the same time, grant assistance for basic public infrastructure development under USDA's rural development mission area has also steadily declined.

These cuts are being back-filled and justified with program increases in federal loan and loan guarantee accounts. For distressed and underserved communities, especially the smaller and more rural areas, this trend puts costly infrastructure improvement projects out of reach. As a result, these communities will continue to mark time in the land of lost opportunity.

According to a new report released by the American Society of Civil Engineers on March 9, the nation's infrastructure remains in serious need of improvements and increased federal investment. The conditions of the country's roads, drinking water systems, public transit, wastewater disposal, hazardous waste disposal, navigable waterways and energy system have worsened since the society's first report card in 2001. The improvement costs alone are now calculated at \$1.6 trillion over the next five years. While state and local governments, industry and nonprofit organizations must and are making major contributions to our public infrastructure enhancement efforts, this immense job will never be completed without the aggressive leadership, participation and vast resources of the federal government.

In addition to the health and social benefits of this long-term and on-going process, infrastructure development is vital to the nation's ability to maintain and sustain a world-class economy. As proven by EDA investments over the years, the role of basic public infrastructure is at the core of both sustaining existing businesses and nurturing new companies. That is why EDA is so significant to local efforts to develop water and sewer facilities, industrial access roads, rail spurs, port improvements, worker skill-training facilities, technology-related infrastructure and other essential infrastructure projects. These are all fundamental for commerce, however the private sector relies, expects and demands that public entities provide and maintain these services and infrastructure.

In the southwest region of Oklahoma, EDA has made several valuable public works investments that demonstrate the value and importance of infrastructure development, even in the most rural of regions. The City of Clinton received EDA assistance to meet an overwhelming need for an improved sewer treatment system. Without EDA public works grant assistance and the staff support and expertise of the South Western Oklahoma Development Authority, the BAR-S Company would have been forced to close its plant in the community. Instead, this major community employer was able to retain nearly 400 quality jobs in this rural and distressed region.

In Anchorage, Alaska, EDA helped construct the "Welcome House," a 26,000 square foot building with galleries, performance spaces and facilities for cultural, educational and tourism programs for the Alaska Native Heritage Center. The 26-acre, \$14.8 million complex also features walking trails, a lake, representative topography and depictions of traditional villages for the five major groups of Alaska Natives. This facility has made major contributions to the region's economy, culture and tourism efforts.

In Minnesota, a partnership between EDA, USDA rural development, the regional planning commission, a local rural electric cooperative and the City of Cambridge clearly demonstrates the power of comprehensive strategic planning and infrastructure development. The community has managed to preserve its small-town charm while attracting a diverse and healthy economic base. Its historic downtown supports an eclectic mix of shops, tech start-ups and service businesses – all catering to a growing population of 7,000 residents. It is now home to some 25 technology-intensive manufacturing companies and is at the forefront of creating hundreds of new living-wage head-of-household jobs in East Central Minnesota. At the core of this success story was the development of a cutting-edge industrial park with state-of-the-art energy and telecommunications infrastructure.

In Upstate New York, EDA and the Southern Tier West Regional Planning and Development Board have been instrumental in reviving an important short-line rail line. After EDA committed to an initial investment of \$2 million the regional organization was able to secure an additional \$2 million from the state transportation department to help re-open the line for the first time in more than ten years. Since 2001, this project has leveraged more than \$26 million in private and public investments in the line, and more importantly, the traffic on the rail extension has grown from 71 carloads per year to 30,000 carloads today.

Employment at local companies have been created and retained, and a number of companies are more competitive today because they have alternatives for transportation service. This is particularly important in regions such as Upstate New York, which according to an August 2003 study by the Center for Urban and Metropolitan Studies at the Brookings Institution, ranks as the 3rd slowest growing region out of the 50 states and the worst region if you took out the prison industry.

EDA'S DISTRICT PLANNING PROGRAM: PROVEN LEADERSHIP IN DISTRESSED REGIONS

Fourth, Mr. Chairman, the members of NADO adamantly oppose the elimination of the EDA economic development district planning program. This modestly funded, but highly effective, program serves as a vital resource and lifeline for the nation's distressed and rural areas. As demonstrated in a thorough program evaluation by the Center for Urban Studies at Wayne State University, the national network of 320 multi-county planning and development organizations 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 economic development districts have used the nearly \$18 million in 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 further states 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.”

More importantly, the analysis 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 comment 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, 72 percent (or 2,178) of the nation's 3,034 counties have populations below 50,000 while only 856 counties have populations exceeding 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.

The economic development districts use 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 and communities are expressing their commitment to building the regional and local expertise required to pursue complex development initiatives and projects.

Almost every small town and rural county would like to have its own economic development practitioner on staff, its own revolving loan fund to finance small businesses, its own professional planner and GIS staff and many of the other luxuries of the nation's suburban and urban communities. By pooling their limited resources together through the economic development districts and regional development organizations, these cities and counties are overcoming their potential shortcomings to develop and establish a professional team of planners and practitioners. Most importantly, they have the added benefit of developing a more regional and collaborative approach to development.

In the southeast portion of the nation, a coalition of economic development districts is using an EDA planning grant to create the nation's first tri-state heritage corridor, now known as the Southern Passages: the Atlantic Heritage Coast. The objective of this multi-state partnership is to create job opportunities in the small rural areas along the once heavily traveled corridor of US 17 and Florida SR A1A from Charleston, South Carolina through Georgia to St. Augustine, Florida.

In Oregon, the Mid-Columbia Economic Development District played an instrumental role in a recent effort to bring Google to a facility at the Port of the Dalles. Nearly two years ago, a group of people representing a local port, city, county and public utility district started discussions to bring a fiber optic loop around the City of The Dalles and then connect to a point-of-presence on the Bonneville Power Administration fiber optic backbone. While it seemed a good project, the group was stalled and considered abandoning the project.

However, the Mid-Columbia EDD brought new resources and contacts to the group and a county-wide telecommunications plan was completed. The redundant fiber optic loop project has now been completed and the first major success story was announced only weeks ago. Google has signed a letter of intent to locate in the region, likely bringing hundreds of jobs to an area that has been economically distressed for many years due to the declines in the natural-resource based economy and the closing of two aluminum smelters. The planning grant funds provided by EDA gave the regional development organization the flexibility and capacity to play a key role in creating this opportunity.

The struggles of communities in the northern tier of Maine echo the constant challenges facing local economic development practitioners and the need for the stable presence and expertise of economic development districts. Anticipating a significant downsizing of its defense sector in 1993, the state of Maine prepared a plan that outlined 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 an RLF administered by the local EDA-designated economic development district. Since the Loring Air Force Base closed in 1994, the Northern Maine Development Commission (NMDC) has used its EDA-funded Defense Diversification Loan Program to make 17 loans, resulting in the retention of 261 jobs and the creation of 398 new jobs in this highly rural region. The loan program has made more than \$2 million worth of loans that have leveraged more than \$26 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 also has financed new businesses that have hired dislocated defense workers.

Even with these successes it is necessary to remember that community and economic development is a risky and competitive business. For instance, Northern Maine made a loan in 1997 to Kent, Inc., a manufacturer of children's sleepwear. Kent bought back one of its original plants when Gerber moved its operations to Mexico. Through a public-private partnership, NMDC made a loan that leveraged private investments and other public funds worth six times the RLF investment, which allowed Kent to reopen the plant. However, after a change in federal laws to fire retardant requirements and the easing of import laws the firm went out of business. Now, a new Tribally-owned company that works on government contracts and a flatbed trailer manufacturer that expanded with the help of the Northern Maine Development Commission's RLF use the building.

In the Red River Valley area of Minnesota, the Northwest Regional Development Commission used its expertise and capacity gained through the EDA planning program to help a local community and area businesses within its region recover from a devastating flood in 2002. The City of Roseau was flooded following an intense storm that brought between 12 an 15 inches of rain. A makeshift set of dikes was overwhelmed and dozens of homes and businesses were destroyed along with much of the basic public infrastructure.

Roseau, the original home of Polaris Manufacturing and the current of home of its snowmobile manufacturing division, is a small town of 2,700 residents. Polaris employs nearly 1,700 people in the area and the company's facility was saved by a last minute effort including the stacking of sandbags and construction of a clay dike. Following the flood, Polaris was very clear on their position about the need for future flood protection: "Without flood protection for the entire community, Polaris Industries has no long term future in Roseau." Very intolerant of any government red tape or obstacles to recovery and safeguarding their investments, the company issued several deadlines to gauge progress.

With assistance from EDA, the Northwest Regional Development Commission moved quickly to assist with recovery planning efforts and eventually funding for critical flood protection and infrastructure projects from Polaris and the city. The group brought together representatives from all levels of government and the business sector to develop, and most importantly, implement a strategy to protect area companies and residents from future flooding. EDA helped fund one of the projects involving a large ditch to divert overland flood waters from the part of the city surrounding the Polaris facility.

These examples of the trials, tribulations and eventual progress of local communities are common throughout distressed regions of the nation. By fostering public-private collaborations and a regional approach to development, as concluded by the Wayne State University study, the network of economic development districts (and other regional development organizations) can continue "generating the kind of regional planning needed to effectively promote positive economic change."

A final point about the EDA planning program and the work of economic development districts is that these entities are held to high performance and accountability standards by the federal government and by local governments and communities. Under federal law and regulations, each organization is put through an organizational review and performance audit by EDA every three years. Each year, the organizations are required to have an independent accounting audit, including in most cases the more advanced OMB A-133 audit. In addition, each organization has a board of directors that consists of local elected officials, community leaders and citizen representatives. These stakeholders find it in their best interests to ensure the regional organizations are effective, efficient and serve local needs.

ECONOMIC DEVELOPMENT IN SMALL TOWN AND RURAL AMERICA

One of NADO's primary concerns with the President's economic development reform proposal is the potential negative impact on small metropolitan and rural America. Historically, these communities

have used EDA, CDBG and USDA rural development as core partners to build and improve the public infrastructure and organizational capacity needed to support private sector job growth.

Many of the nation's small metropolitan and rural regions are already struggling to overcome geographic isolation, whether caused by difficult terrain, open space or inadequate infrastructure. Many are trying to diversify local economies that have been historically dependent on a single industry, such as agriculture, coal, fisheries, timber and textiles. Furthermore, these communities are facing additional challenges that are compounded and exacerbated by declining employment bases, limited tax revenue to support new investments, high costs associated with diseconomies of scale and the ongoing difficulties of adjusting to population shifts and losses.

In examining the economic and business profiles of small town and rural America, the needs and opportunities facing these communities becomes apparent. According to the Center for the Study of Rural America at the Federal Reserve Bank of Kansas City, "Small firms account for 90 percent of all rural establishments." In fact, small business firms employ 60 percent of rural workers and supply half of rural payrolls. In all, according to the Center, nearly 1.2 million small firms are based in rural America. As expected, many of these firms are concentrated in the fast-growing service industries associated with accommodations, social services, retail, amusement and recreation.

It is essential that federal programs be flexible enough and targeted to help our smaller communities support and expand their existing businesses, especially those firms owned by local residents and interests. As featured in a March 2001 publication by the Federal Reserve Bank of Kansas City, "These companies are more apt to invest in the local community and region, they are less likely to relocate, and they typically assume leadership roles in the community." Programs such as the CDBG small cities program, EDA and USDA rural development have a long-standing tradition and understanding of this unique need.

The members of NADO are also concerned about the almost exclusive focus by EDA agency officials on the philosophy of cluster development. In evaluating the overall philosophy for local economic development, nearly one hundred percent of participants at NADO's national e-forum focus group in August 2004 responded that communities should pursue either a mixture of an industry cluster within a diversified regional economy or the development of a diversified regional economy.

This response reflects the fact that small town and rural economies have traditionally relied too heavily on one industry, whether it is agriculture, timber, manufacturing, coal, fisheries, tourism or other natural-resource based industries. By focusing all of a region's resources on one industry or cluster, it makes the area more vulnerable to shifts in national and global marketplaces, as well as advances in new technologies and consumer needs. Therefore, we urge the committee and Congress to maintain the local flexibility and control of the current set of federal programs, instead of pursuing a more "one-size-fits-all" approach to local economic development.

This is clearly evident by rural factory trends. From 1991 to 1998, according to the Center for the Study of Rural America, rural factory jobs rose more than 3 percent, 50 percent faster than job gains in metropolitan factories. However, this encouraging trend was short lived as rural manufacturing employment fell 4.6 percent in 2004, according to government statistics, representing a sharper drop than in urban areas for the second straight year. Nearly 140 factories closed their doors in rural America last year. Factory closings represented 45 percent of total mass layoffs at rural factories, compared with only 25 percent at metro factories. These figures are in sharp contrast to strong gains throughout much of the 1990s and unfortunately are more reflective of the competitive nature of most rural-based manufacturing companies that are mostly concentrated in food, textiles, timber, furniture and paper industries.

These statistics reinforce the reality that local economies and private sector industries are in a constant state of change, and are subject to subtle and severe shifts in technology, investment markets and global competition. Therefore, it is vital that rural regions develop the workforce, institutional and community systems required to be competitive in more advanced industries whether it is agriculture, advanced manufacturing, natural-resource based or technology related fields.

All of the nation's regions and local communities must engage in an on-going and dynamic strategic planning process, otherwise they will fall prey to complacency and world progress. Even local economies that are excelling today are subject to sudden or subtle changes in international, national and local markets. Loss of local control with the emergence of global companies, consolidation of banks and other industries that were once locally owned and controlled and other factors will continue to make the task of regional and rural development officials harder and more challenging.

CONCLUSION

In closing, Mr. Chairman and members of the subcommittee, I want to reinforce our strong support for the current portfolio of federal community and economic development programs, especially the Economic Development Administration, HUD's Community Development Block Grant program and the USDA's rural development mission area. We are concerned about the potential loss of nearly \$2 billion in federal grant assistance each year for distressed communities. We are anxious to learn more about the details of the Administration's plan since the current proposal is only a brief outline. Finally, we are most troubled by the proposed elimination of the EDA planning program for economic development districts. Without this essential program, our nation's distressed and rural communities will be faced with severe burdens and obstacles in their pursuit of economic growth and prosperity.

Thank you again, Mr. Chairman, for the opportunity to appear today. The members and leadership of NADO look forward to working with members of Congress and the Administration to ensure that the federal portfolio of community and economic development programs are accountable, focused, efficient and results-oriented. I would welcome any questions.