

**Testimony of Assistant Secretary of Commerce for Economic
Development David A. Sampson before House Economic Development
Subcommittee, Transportation and Infrastructure Committee**

March 17, 2005

Chairman Shuster, Ranking Member Norton, Members of Congress:

It is a pleasure for me to discuss with you the President's Strengthening America's Communities Initiative, and his efforts to improve the effectiveness of federal economic and community development efforts.

President Bush's Strengthening America's Communities Initiative is an innovative approach to help our most-economically-distressed American communities get on the path to economic growth and opportunity.

Today I would like to share with you:

- The underlying principles behind the initiative;
- The case for reform; and
- The main points of the initiative.

Underlying Principles:

America's economy is strong, and growing stronger, but that growing economic strength is not felt equally throughout the Nation. As the members of this committee know, in low-income communities and in communities where traditional industries do not employ as many workers as they did a generation ago, opportunity can appear out of reach. President Bush believes that these communities can make the transition to vibrant and strong economies because of the entrepreneurial spirit, the vision, and the hard work of those who live there.

The President also believes that the goal of federal economic and community development programs is to create the conditions for economic growth, robust job opportunities, and livable communities, thereby encouraging a community's improvement and reduction of the need to rely on perpetual federal assistance. President Bush believes that all communities can make the transition to broad-based, vibrant 21st century economies because of the entrepreneurial spirit, vision, and hard work of the people who live there. The challenge in building growing, vibrant economies is that reliance on government and philanthropic resources alone to get the job done is an inadequate approach. There simply aren't enough resources to address the need. The real opportunity—in fact, the requirement for success—is to engage the much larger resources

of the private sector to change economic opportunities for our most distressed communities and citizens.

We want more resources to flow to the most distressed communities, so the challenge is to target and focus government resources to attract and leverage the power of private markets to renew communities.

Sound investments in community development efforts lay the groundwork for successful economic development efforts. Success in economic development is achieved by attracting private sector investment and higher-wage jobs. These successes lead to higher tax revenue at the local level that in turn can result in more community and economic development.

Why We Need Reform

In total, the federal government administers over 30 economic and community development programs housed in several different cabinet agencies. The Strengthening America's Communities Initiative addresses 18 of the direct grant programs within that portfolio.

As you can see from the chart (see chart entitled “*the Current Economic Development System is Fragmented*”), the current system forces communities to navigate a maze of federal departments, agencies and programs – each imposing a separate set of standards and reporting requirements – in order to access federal assistance. Some of these programs duplicate and overlap one another, and some have inconsistent criteria for eligibility and little accountability for how funds are spent. Most of these programs lack clear goals or accountability measures, and thus cannot sufficiently demonstrate any measurable impact.

Many communities with relatively low poverty rates receive federal funding at the expense of distressed communities, thereby undermining the purpose of some programs. OMB has studied the performance of many of the programs being consolidated, and it is safe to say that American taxpayers deserve better results than they are getting today.

Moreover, the status quo is not helping distressed communities across this country. Although it may make sense “Inside the Beltway,” distressed communities across America do not understand why they need to spend local tax dollars to hire grant writers and experts to figure out how to access federal grant money from these 18 programs.

The current federal system largely involves five cabinet agencies (Commerce, Housing and Urban Development, Agriculture, Health and Human Services, and Treasury) with programs that share a similar mission of improving economic opportunity and the quality of life in America's communities. To ensure the efficient use of taxpayer resources and improve the focus on results, the Administration continues to look for ways to improve the performance of programs. In some cases, by focusing on one program at a time, we miss an opportunity to achieve comprehensive reform and increased efficiencies. The Administration's review of overall federal development efforts found that many programs are not only duplicative, but also unable to demonstrate any long term measurable results. While each program has achieved individual successes in treating the symptoms of poverty, the overall ability of these programs to heal the underlying causes of poverty is at best questionable. The President's proposal will focus our efforts at treating the problems instead of the symptoms.

Success is often hampered by this fragmented, and frequently duplicative, set of programs. In some instances, programs act in isolation from one another, even though they share the exact same purpose and serve the same populations. In other cases, funding is distributed almost blindly, based on outdated models and allocation algorithms that don't address communities' current demographic conditions. As a result, funding is spread thinly and not strategically targeted to have any impact on communities in need. The status quo is also unfair to small towns in rural America that do not have built in bureaucracies to tap into 18 different pots of federal money. The President's proposal

attempts to provide “one stop shopping” for federal grant assistance, and seeks to enlist Congress to support this streamlining of federal assistance for all users.

As you can see here (See chart entitled “*Strengthening America’s Communities Initiative Would Streamline Federal Economic Development*”), the Strengthening America’s Communities Initiative simplifies access to the federal system, which will drastically reduce the administrative burdens currently placed on grant applicants and recipients and free local resources to focus on their programs and not on navigating a complex federal system.

Concerns about the status quo mirror the growing consensus among the nation’s leading economists and economic development researchers and practitioners that because of the fragmented, unfocused, and duplicative nature of the programs, there is a need to fundamentally rethink and refocus the federal role in support of state and community efforts to promote the competitive ability of our communities to spur job creation in the 21st century economy. For example, the U.S. Council on Competitiveness recently issued a groundbreaking report, “Innovate America.” In that report, over 400 corporate and academic leaders called for the consolidation of federal development programs in order to bolster America’s competitiveness. America must rework its federal support system to keep communities in tune with a changing world-wide economy.

Research shows the need for strong support from the private sector to create sustainable job growth. EDA, one of the programs being consolidated, has made private sector leverage a key investment consideration. As a result, for FY2004, EDA attracted over \$10.4 billion in private investment via its \$323 million of grant funds. This funding will help save 34,488 jobs and create 125,604 new jobs. The communities impacted by the federal government and private sector working together will meet their competitiveness goals in a more efficient manner.

With these reforms government can help create a favorable business environment. Once this environment is created, companies and industries must ultimately achieve and sustain competitive advantage. The federal government's programs must help attract the private investment necessary to sustain economic progress.

Key Elements of the Initiative:

Let me now explain in further detail the actual proposal. As you see in this chart (See chart entitled "*FY2005 35 Economic and Community Development Programs*"), the President's 2006 budget proposes consolidating 18 of the 35 existing federal programs into a single \$3.71 billion unified grant making program. This program will target funding to those communities most in need of assistance and achieve greater results for

low-income persons and economically-distressed communities by setting new eligibility criteria determined by such things as job loss, unemployment levels, and poverty.

The new initiative will also simplify access to the federal system, and establish strong accountability standards, all in exchange for flexible use of funds by communities most in need. The consolidated program, which will be administered by the Department of Commerce, will have two components:

- 1) The “Strengthening America’s Communities Grant Program” – a formula-based unified economic and community development grant program, representing the bulk of program funds, and

- 2) The Economic Development Challenge Fund, a bonus program modeled on the concept of the Millennium Challenge Account.

The Strengthening America’s Communities Grant Program will require communities to track progress toward certain goals, including such things as increasing job creation, new business formation, and private-sector investment, from an economic development standpoint; and increasing homeownership—including first-time and minority homeownership—and commercial development, from a community development standpoint.

The Administration is committed to increasing the flexibility over and above that of existing programs. We recognize that each community is different and will need to take a different road to tackle its individual community and economic development challenges. We envision the legislation will provide ample flexibility for activities that currently are eligible for assistance to remain eligible to receive assistance in the future.

The initiative attempts to unify varied federal planning processes, including those currently used by EDA, which this committee has discussed in the past. Although the details remain to be determined, we envision multi-year strategic growth plans will be utilized to identify local needs and goals. The communities will have wide flexibility in the tools used to achieve these goals. However, strong accountability measures will ultimately measure results against goals set by the community in its plan.

The Economic Development Challenge Fund will provide a bonus to communities that have already taken steps to improve economic conditions and have demonstrated a readiness for development, such as improving schools by meeting the No Child Left Behind adequate yearly progress goals, reducing regulatory barriers to business creation and housing development, and reducing violent crime rates within the community.

Finally, we recognize that a lot of work lies ahead of us with regard to implementation of the initiative. The Administration will submit legislation for this initiative as part of a collaboration with Congress and leaders from within the stakeholder groups (including America's cities and counties), and we look forward to continued collaboration as the legislation takes shape. The Administration is committed to reaching out to our key stakeholders, to gain their insight and to build the legislation with their help and advice.

In addition, a Secretarial Advisory Committee is being created at the Department of Commerce to provide assistance with some of the most complex and contentious issues regarding this proposal, such as eligibility criteria and appropriate accountability measures. We believe that by working with economic and community development practitioners, the private sector, non profits, and leading experts, we can shape a government program that will improve the competitiveness of our communities and meet the challenges they will face in the 21st century. The Administration seeks the widest possible input to help shape the legislation we intend to send to Congress as soon as feasibly possible.

Conclusion:

States and communities must have the flexibility to apply development funds where they are most needed and they should not have to go through the current laborious process to access federal funds. At the same time, they must be accountable and be able to show tangible results for the federal funding they receive. This flexibility is critical to improving the competitiveness of America's communities and thereby improving the standard of living for those most in need.

The federal government must also be more accountable to American taxpayers. For too long programs have been administered without requiring measurable results – and have been allowed to duplicate each other. This duplication is at the expense of our communities that most lack the resources to navigate the federal maze that currently exists. Currently, our federal efforts in this regard are based on precepts from the late 1960s and early 1970s that are no longer valid, or fair, to our neediest communities.

The President's proposed initiative is good for the economy, is good for distressed communities and is simply good government. It will position communities, regions, and states to be more competitive in the worldwide economy and most importantly, it will create more American jobs and a rising standard of living.

I appreciate the opportunity to explain this proposal to the committee. As I noted, there is much work to be done and I look forward to working with your committee to make sure that legislation sent to Congress is the result of an open dialogue with stakeholders and Members of Congress. I look forward to answering any questions that you may have.

Thank you.