



**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**

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**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 discuss 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 indispensable 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 21<sup>st</sup> 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-Ottawaquechee 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.