

**Testimony of Assistant Secretary of Commerce for Economic  
Development David A. Sampson before House Federalism and Census  
Subcommittee, Government Reform Committee  
March 1, 2005**

Chairman Turner, Ranking Member Clay, Members of Congress:

It is a pleasure to join my colleagues from the Office of Management and Budget and Housing and Urban Development to discuss the President's Strengthening American 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.

He 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.

### **Why We Need Reform**

In total, the federal government administers 35 economic and community development programs housed in several different cabinet agencies. The Strengthening America's Communities Initiative addresses the 18 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 issues of the programs being consolidated; and, it is safe to say that the American taxpayer deserves better results than what 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 efforts from 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 federal development efforts found that many programs are not only duplicative but are also unable to demonstrate any measurable results. The President's proposal focuses on those programs that overlap in function and mission.

Success is often hampered by this fragmented, and often 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. 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. Rather the President's proposal attempts to provide "one stop shopping" for federal direct grant assistance and seeks to enlist Congress to support this streamlining of federal assistance for all users.

These 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 economic growth and spur job creation in the 21<sup>st</sup> 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 in order to keep communities in tune with a changing world-wide economy.

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, freeing local resources to focus on their programs and not on navigating a complex federal system.

### **Key Elements of the Initiative:**

Let me 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 federal 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 assisted 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 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 there is a lot of work ahead of us with regard to implementation of the Initiative. The Administration will submit legislation for this initiative as a part of a collaboration with Congress and stakeholder groups including America's mayors, counties and cities and we look forward to continued collaboration as the legislation takes shape.

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 and what will accountability measures look like. The Administration seeks the widest possible input to help shape the legislation we intend to send to Congress as soon as feasible.

**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 laborious process currently existing 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. 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.

The President's proposed initiative is good for the economy, is good for distressed communities and is simply just 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.