WRITTEN STATEMENT FOR THE RECORD

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IOWA NORTHLAND REGIONAL COUNCIL OF GOVERNMENTS
AND PRESIDENT OF THE
NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
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SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS
AND EMERGENCY MANAGEMENT

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Thank you, Chairwoman Norton, Ranking Member Diaz-Balart 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 Sharon Juon. I am the Executive Director of the Iowa Northland Regional Council of Governments, headquartered in Waterloo, Iowa. I also currently serve as the President of the National Association of Development Organizations (NADO). My professional background includes more than 30 years of economic development experience in both the public and private sector, including ten years in my current position.

The **National Association of Development Organizations (NADO)** provides advocacy, education, research and training for the national network of 520 regional development organizations, including the 381 multi-county Economic Development Districts (EDDs) designated and funded by the U.S. Economic Development Administration (EDA). NADO members—known locally as councils of governments, economic development districts, local development districts, planning and development districts, regional councils and regional planning commissions— are focused on strengthening local governments, communities and economies through regional collaboration, comprehensive development strategies and program implementation.

Our nation's regional development organizations manage and deliver a variety of federal and state programs. Based on local needs and priorities, programs may include aging, census, community and economic development, emergency management and homeland security preparedness, GIS, housing, small business development finance, transportation and workforce development. A policy board of local elected officials, along with business, education and citizen representatives, governs and sets the priorities for each regional organization.

The **Iowa Northland Regional Council of Governments (INRCOG)** is a voluntary association of local governments established by state law serving the member jurisdictions in Black Hawk, Bremer, Buchanan, Butler, Chickasaw and Grundy counties located in the northeastern region of Iowa. In addition to serving as an EDA-designated Economic Development District (EDD), INRCOG is responsible for coordinating, assisting and facilitating a variety of community and economic development, transportation, homeland security, housing and environmental programs that benefit local communities throughout the region.

First, Madam Chair, the members of NADO urge Congress to develop and pass a multi-year reauthorization bill for EDA. In addition, Congress is urged to support a bill that incorporates several changes designed to strengthen the effectiveness of EDA investments in distressed and underserved communities, especially those in small metropolitan and rural regions.

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.

With hundreds of communities and workers fighting to recover from devastating plant closures and downsizings, natural disasters, and limited access to credit and capital, EDA is becoming an increasingly valuable resource that pays dividends for distressed communities across the nation striving to attain economic stability. EDA is among the most cost efficient and effective federal programs because project investments are vetted through a comprehensive regional strategy process, require local matching funds, and are required to leverage substantial amounts of private sector resources.

NADO believes that additional policy initiatives and program changes could be instituted to improve EDA's performance in providing cutting-edge infrastructure and economic development assistance in distressed and underserved areas. These reforms include:

1. **Modify local cost share rates for projects in distressed communities**. While the 2004 EDA reauthorization bill did not intend any changes, the agency made significant revisions by regulation to the cost share requirements for distressed areas. It is now much more difficult for distressed communities, especially small urban and rural areas, to meet the revised EDA match requirements. As a result, many regions and communities remain unable to implement the infrastructure projects necessary to support private sector businesses. These changes run counter to the agency's mission of providing seed capital and gap financing to the nation's most economically distressed communities.

2. **Local control and ownership of EDA's more than 500 Revolving Loan Funds (RLFs)**. EDA's RLF program has the unique distinction of being the only federal grant program that never loses its

federal identity. The initial RLF grant and any income and interest derived from it are considered federal property, indefinitely. As a result, RLF intermediaries are required in perpetuity to comply with costly 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 EDA's management burden while still ensuring local accountability and transparency is maintained. RLF capitalization investments should be treated like a grant to intermediaries, as it is named, rather than a loan program to intermediaries, as it is currently operated.

3. **Implement stronger incentives to reward regional collaboration, partnerships and initiatives among public and private leaders through EDDs**. While the 2004 EDA reauthorization bill established two new performance award programs, these initiatives are very limited in scope and have demonstrated very limited impact. As concluded in numerous international and national policy studies in recent years, federal programs such as EDA need much broader and more aggressive funding incentives to foster regional approaches to economic competitiveness. Congress should build upon the existing set of EDA-designated EDDs to facilitate, support and implement regional development projects and initiatives.

4. **Provide EDA with program flexibility to adapt to changing economic development challenges**. By authorizing the agency's Global Climate Change Mitigation Fund, currently funded at $9.4 million for FY2008, and authorizing separate initiatives for alternative energy/energy efficiency and broadband initiatives, the agency will be better positioned to assist communities in implementing both sustainable job creation strategies and provide the advanced infrastructure increasingly needed to support the technology-intensive demands of the private sector.

5. **Increase funding for EDA's core programs**. Public works and economic adjustment assistance programs should remain the primary focus of EDA. Proposed at roughly $272 million in the FY2009 Omnibus Appropriations Act, the agency's budget has declined nearly 35 percent since FY2001. The funding authorization for EDA's core programs should start at the FY2008 level of $500 million and be increased each year to account for rising construction costs, mounting infrastructure improvement needs and increasing global competition. Declining resources for EDA's key economic and infrastructure programs translate into fewer jobs created and fewer private sector dollars leveraged in our nation's distressed and underserved communities.

6. **Adjust baseline funding for the EDD partnership planning program**. The 2004 EDA reauthorization law set the mandatory minimum funding level for the EDA partnership planning program at $27 million. This account provides invaluable matching funds for EDDs and local communities to pursue regional economic development goals and strategies. The demands on EDDs have increased significantly due to the current economic downturn and the evolving nature of the global economy, as well as new mandates imposed by EDA in 2005. The program account should be raised to $34 million to provide additional assistance to distressed regions.

7. **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. 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 personnel in the agency's six regional offices, including Economic Development Representatives (EDRs), and to restore the professional career staffing capacity at its headquarters.

Second, Madam Chair, EDA and its local partners have a proven and documented record of exceptional performance and accountability. The agency has developed a strong record in assisting communities that 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.

Two independent, in-depth studies conducted in the past ten years have concluded that EDA projects have a significant impact on employment levels in the communities in which EDA investments are made. The most recent analysis released by Grant Thornton and ASR Analytics in September 2008 found that EDA's public works program generates "between 2.2 and 5.0 jobs per $10,000 in incremental EDA funding, at a cost per job of $2,001 and $4,611." These are highly impressive returns for any public economic development agency, whether at the federal, state or local level.

The 2008 Grant Thornton study strongly correlates with the 1997 study by Rutgers University and consortium of research partners. This comprehensive analysis found that EDA investments helped the nation's most distressed communities create long-term jobs at an average cost of $3,058 per job and indicated that the number of jobs created typically doubled in the six years succeeding project completion. The Rutgers report underscored that the near-perfect on-time completion of EDA public works projects is directly related to the planning phase that precedes project development and selection, especially the work performed by the national network of EDDs.

Despite EDA's long and documented 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 and fewer resources.

Meanwhile, using the agency's performance outcomes in recent years, EDA could potentially help create or retain more than 85,000 private sector jobs and leverage roughly $4 billion in additional public and private sector investments in distressed areas if EDA's annual appropriations were restored to the FY2001 level of $439.8 million. 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 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 region within Iowa, EDA has been a key partner in several important projects. Last year, our organization helped secure $1.5 million for **Cedar Valley TechWorks**, an initiative aimed at establishing a bio-products cluster in several old John Deere buildings that the company donated to nonprofit organizations in the Waterloo area.

Following the devastating floods of 2008, EDA provided $300,000 for our organization to hire **two full-time flood coordinators** for our region. These positions are desperately needed to facilitate communications among federal, state and local officials. They are also essential to coordinate projects and resources at the local level and to provide technical assistance to our local governments and communities that were impacted by the devastating floods.

Again, with the assistance of INRCOG, the **City of Waterloo** received $750,000 from EDA to assist in the redevelopment of the **Rath Packing** facility, a brownfields site, in 1998. EDA's investment helped rehabilitate the infrastructure and facilities within the eight-acre site. The investment helped create and retain over 400 jobs and leverage in excess of $5 million in private sector investment.

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.

In 2003, the **City of Brewster, Minnesota** and the **Minnesota Soybean Processors** worked with the **Southwest Regional Development Commission (SRDC)** to secure $530,000 in EDA funding to upgrade the city's wastewater system in order to allow for the construction of a soybean crusher and biodiesel production facility that would produce 30 million gallons of biodiesel each year. The EDA funds helped leverage $85 million in private investment and created 60 jobs in a town with a population of roughly 500.

EDA recently provided $2.3 million to the **Eastern Shore of Virginia Broadband Authority** (Accomac, VA) for construction of 66 miles of fiber optic broadband network lines from the NASA Wallops Island Flight Facility to Cape Charles, Virginia. The network will provide high-speed broadband access to support the naval facility and expansion of existing financial, manufacturing, and research and development businesses in the region. This investment is part of a $4.75 million project that will help create 760 jobs and generate $109 million in private investment.

In 2000 through 2001, through the efforts of the **Central Oklahoma Economic Development District** (Shawnee, OK), EDA invested $560,000 to build sewer, water, transportation and fiber optic/broadband infrastructure in the **Okemah Industrial Park** (Okemah, OK). These funds leveraged $2 million in private sector investment and $600,000 in local and state resources, which resulted in the creation of 59 jobs. In 2004, utilizing the EDA-funded infrastructure, a second company, **SERTCO Industries, Inc**., expanded its operations and created 49 new jobs with an additional $1.1 million in private sector investment. SERTCO is currently undergoing a second expansion within the EDA-funded industrial park, which will be completed this year and will add a minimum of another 40 jobs and result in an additional $800,000 in private sector investment. SERTCO has grown into a multinational corporation conducting substantial business in countries such as Argentina, Mexico, Canada and Pacific Rim nations.

The **Mohawk Valley Economic Development District** (Mohawk, NY) worked with **Montgomery County** to secure $1.6 million from EDA in 2002 to establish the 500-acre **Florida Business Park**. EDA resources were utilized in the site preparation process, including the installation of water and wastewater infrastructure. Several large corporations invested large amounts of capital in the park and expanded their businesses operations there, including **Target, Inc**., which now owns nearly 300 acres of the park, employs more than 570 and invested more than $111 million. **Beech-Nut**® recently acquired 100 acres to build a new production facility that employs 490 people. In total, nearly 1,100 jobs have resulted from EDA's investment in the park. EDA's per job investment is roughly $1,570 per job and for each dollar of EDA funding more than $130 in private investment was realized.

In 2004, with assistance from **SEDA-COG** (Lewisburg, PA), EDA provided $1.4 million to the **Coal Township Board of Commissioners** and the **Shamokin-Coal Township Joint Sewer Authority** to develop infrastructure for the SEEDCO Industrial Park, which was located on the site of an abandoned coal mine. The park is currently home to Reinhart Food Services, a firm that has invested nearly $21 million in the site and employs 320 people.

Last year, EDA invested $1.9 million for the development of the **Barton Riverfront Industrial Park** in **Colbert County, Alabama**. The investment was leveraged with $350 million in private investment from the **National Alabama Corporation**, which is locating in the park and will produce between 8,000 and 10,000 railcars per year and, when at full capacity, will employ 1,800 people within this distressed rural region.

In 2006, the **Braxton Technology Center** – a 30,000square-foot multi-tenant building specifically designed to accommodate the needs of high-technology businesses – officially opened its doors. EDA's grant of $1.1 million to the **Braxton County Development Authority (WV)** leveraged $25 million in private sector investment and created 100 jobs in this rural community. In just over two years, the building is now fully occupied and the development authority has determined that a second facility is needed to meet the growing demands of the current tenants.

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 economic development infrastructure.

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 10 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 4 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 9 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 5 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.

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

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

EDA's economic development district planning program is the only program in the federal government that invests in regional economic development planning with a specific focus on increasing private sector employment. It is the only program of its kind that allows local governments to collaborate on a region-wide basis to strategically plan for their economic sustainability. Unfortunately, it is only funded at $27 million each year. With 381 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 in 1970 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 collaboration, 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 be identified during the CEDS process and be matched with 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 taxpayer expense would not be possible without the direct involvement and participation of the EDA-designated EDDs.

As demonstrated in a thorough program evaluation by the Center for Urban Studies at Wayne State University, the national network of 381 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, "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 U.S. 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 economic development initiatives and projects.

The challenges facing EDDs do not end at the county line or even at 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, and 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-square-foot 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

In 2007, through the planning process coordinated by the **West Florida Regional Planning Council** (Pensacola, FL), the region completed two projects that created significant jobs for this distressed area. First, Escambia County received $800,000 in EDA assistance for infrastructure improvements at the Ellyson Industrial Park. As a result, Wayne Dalton Corporation announced plans for a $37 million expansion, which will add 200,000-square feet of space and create 146 jobs. Second, the Santa Rosa County Industrial Park received $800,000 for facility improvements, which has helped attract Hope Lumber, Meltpro and Boise Building Materials Distribution to the facility. More than 225 jobs were created as a result of EDA's investment, which would not have occurred were it not for the CEDS developed by the regional planning council.

The CEDS activities of the **Southside Planning District Commission** (South Hill, Virginia) helped provide **Mecklenburg County** with the ability to secure $755,000 in EDA resources to construct the Roanoke River Regional Business Park, which was completed in June 2007. Shortly following the completion of the park, **American Industrial Heat Transfer, Inc.** announced its intention to locate in the facility and make an $11 million investment. Its facility was completed in June 2008 and employs 85 people in this distressed area.

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 International 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.

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 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 approximately 320 to 381. 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.

Finally, Madam Chair, 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. Intermediaries 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 small urban and 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 from first-hand experience the transformative potential the RLF program can play at the local level. As part of our flood recovery efforts, we recently received $750,000 to establish a Revolving Loan Fund (RLF) that will serve northeastern Iowa. The RLF will assist businesses that were severely impacted by the floods, and we estimate the fund will help create 233 jobs, save 232 jobs and generate more than $4.7 million in private investment.

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.

In 2008, the **Arrowhead Regional Development Commission's** (Duluth, MN) EDA-funded RLF provided roughly $300,000 in capital to businesses in the seven-county region, including $100,000 to Superior Thermowood, Inc. The loan was leveraged with an additional $600,000 from the Northland Foundation and Iron Range Resources. The company produces chemical-free, rot-resistant wood products using a drying process developed in Finland. The loan will be used to purchase and install Finnish-made kiln for the thermal treatment process. The project will yield 11 advanced manufacturing jobs in this rural region.

In 2002, the **Mo-Kan Regional Council** (St. Joseph, MO) used its RLF to provide the Shatto Milk Company with $119,000 in financing to expand from a traditional dairy operation to a value-added niche producer making hormone-free milk distributed in glass bottles. The company has grown from two employees to 13-18 employees, depending on the season. In 2006, the Shatto Milk Company was named the Small Business Administration's (SBA) Small Business of the Year. Since its initial EDA RLF grant of $357,000 in 1990, Mo-Kan Regional Council's RLF has grown to over $2 million and has helped create 726 jobs and retain an additional 414.

While the EDA RLF program has proven to be an effective tool to assist local businesses and entrepreneurs, there are several potential changes that would improve the management and

performance of the program. The members of NADO support the adoption of several policy changes as part of any EDA reauthorization measure. These include:

- **Strengthen local control and ownership of RLFs.** EDA's RLF program has the unique distinction of being the only federal grant program that never loses its federal identity. The initial RLF grant and any income 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 requests and needs. Due to changes in the agency's investment priorities and reductions in agency 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. 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 today's economy.

In closing, Madam Chair, I want to reinforce NADO's strong support for a multi-year reauthorization bill that vigorously preserves EDA's current mission and program focus. 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 and strategic investments.

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, Madam Chair and members of the subcommittee, for the opportunity to testify today on the views of NADO and its membership. I would welcome any questions.