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Report to Congressional Requesters

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ECONOMIC DEVELOPMENT ACTIVITIES

Overview of Eight Federal Programs

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Resources, Community, and
Economic Development Division

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The Honorable Alfonse M. D'Amato
The Honorable Edward M. Kennedy
The Honorable Jeff Bingaman
United States Senate

The Honorable Martin T. Meehan
The Honorable Christopher Shays
The Honorable Bob Franks
House of Representatives

Incentives in the form of tax concessions, financial assistance, or other benefits represent a major tool available to states and localities to attract new businesses and improve their economic competitiveness. Federal loans and grants that are available to states and communities finance the types of activities that can be offered as incentives. Because the intent of many federal programs is economic development, including the creation of jobs, there is concern over the extent to which federal dollars are used to relocate jobs from one community to another.

This report responds to your request that we provide you with the following: (1) What economic development activities[1] can major federal programs fund for the benefit of states and communities? (2) What restrictions exist for using program funds to relocate existing businesses and jobs? (3) For those programs with restrictions, what procedures have federal agencies established to ensure compliance with the restrictions? (4) What types of incentives have states and communities used to attract businesses and what role may incentives play in a business' decision to relocate?

As agreed with your offices, we examined the following eight programs: the Economic Development Administration's (EDA) Public Works and Development Facilities Program, within the Department of Commerce; the Community Development Block Grant (CDBG) Program, within the Department of Housing and Urban Development (HUD); the Employment and Training Assistance for Dislocated Workers Program, within the Department of Labor; the Community Services Block Grant (CSBG) Program, within the Department of Health and Human Services (HHS); the

[1]Economic development activities, as used in this report, include projects and activities, such as those that provide roads, sewers, and industrial parks; job training; and other activities that are designed to (1) help communities expand and diversify their economies; (2) develop, expand, or rehabilitate public facilities; and (3) reduce unemployment and poverty.

Clean Water State Revolving Fund Program, within the Environmental Protection Agency (EPA); the Water and Waste Disposal Program, within the Department of Agriculture; the Surface Transportation Program, within the Department of Transportation; and the Empowerment Zone and Enterprise Community (EZ/EC) Program, administered by Agriculture and HUD and funded primarily by HHS' Social Services Block Grant (SSBG) Program. We selected these eight programs because they are large-dollar programs, states and communities are the primary recipients of the programs' assistance, and the assistance provided by these programs is generally accessible to all states.

Results in Brief

Funds for the eight program we examined can be used for a variety of economic development activities. Three of the programs—the Economic Development Administration's Public Works and Development Facilities Program, HUD's Community Development Block Grant Program, and HUD's and Agriculture's Empowerment Zone and Enterprise Community Program—fund activities that focus primarily on the economic development of distressed areas. Two of the programs—Labor's Employment and Training Assistance for Dislocated Workers Program and HHS' Community Services Block Grant Program—focus on improving the economic viability of individuals by funding activities that help unemployed individuals qualify for and find new jobs and help low-income individuals and families obtain adequate jobs, education, nutrition, and housing. The three remaining programs—EPA's Clean Water State Revolving Fund Program, Agriculture's Water and Waste Disposal Program, and Transportation's Surface Transportation Program—fund infrastructure projects in the form of wastewater treatment projects and other water quality projects and highway, mass transit, or other transportation projects where economic development of an area may be an offshoot.

Of the eight programs, three have restrictions against using funds to relocate jobs; four do not address the issue of using funds to relocate jobs; and under one, legislation that would impose prohibitions against relocating jobs is pending. The Economic Development Administration's regulations prohibit using Public Works and Development Facilities Program grants to relocate jobs from one area to another. Among other things, the Job Training Partnership Act (JTPA) of 1982 prohibits using Labor's Employment and Training Assistance for Dislocated Workers Program grants or any other funds under the act to encourage or induce a business to relocate if the relocation results in the loss of employment at

the business' original location. The Omnibus Budget Reconciliation Act of 1993, which established the Empowerment Zone and Enterprise Community Program, specifies that the strategic plans for revitalizing distressed areas not include any provisions to help relocate businesses from non-Empowerment Zone and Enterprise Community areas if the relocation increases unemployment in the area of the business' original location. Pending legislation would impose similar prohibitions against relocating jobs under HUD's Community Development Block Grant Program.

Agencies responsible for programs with relocation restrictions rely on various procedures to ensure compliance with the prohibitions. The Economic Development Administration relies on assurances from applicants and certifications from businesses benefiting from the Economic Development Administration's assistance that the businesses will not transfer jobs from other areas to the project area. Similarly, Labor requires that substate organizations awarding grants and businesses complete preaward reviews to verify that businesses are not relocating jobs from one labor market area to another. HUD and Agriculture rely on their own determinations that strategic plans for the Empowerment Zones and Enterprise Communities do not provide for the relocation of businesses. In a November 1996 memorandum, HUD advised the Atlanta Empowerment Zone that the law does not prohibit an empowerment zone in the implementation stages of its plan from using Social Services Block Grant funds to finance activities that may assist a business relocating to the zone. However, HUD is withdrawing this memorandum. In the near future, HUD plans to issue guidelines that will (1) clarify HUD's position that Social Services Block Grant funds should not be used to relocate jobs and (2) outline HUD's intent to withhold funds if empowerment zones or enterprise communities do not comply with the policy.

States may use a variety of incentives, such as tax concessions, financial assistance, and other benefits, to encourage economic development and attract businesses. Also, when federal funds are used for an activity that the state or community would have undertaken anyway, those federal funds free up state money for some other activity, including incentives to attract businesses. Studies have shown that when making decisions to locate in a particular area, businesses consider a variety of factors, such as workers' productivity, the efficiency of transportation facilities, and the community's receptivity; incentives may or may not be a major factor in a firm's decision to locate to a particular area.

Background

Business incentives are inducements that state and local governments can offer to attract or retain businesses and jobs. Incentives offered by state and local governments may be in the form of a direct payment to a business to locate or remain in a certain area. Or incentives may be less direct; for example, they can be in the form of exemptions from state and local taxes; loans on favorable terms, through industrial revenue bonds, or direct loans from state and local agencies; or state-subsidized job training. Over the past two decades, the variety of incentives offered by states and local governments has grown. One estimate by the state of Ohio shows that state and local governments annually spend billions of dollars to motivate businesses to relocate within their jurisdiction or to keep businesses from moving out.

The use of incentives and their effectiveness and impact in luring businesses and jobs from one location to another have become the issue of much debate in recent years. Proponents of incentives maintain that they are a cost-effective way to promote economic development and that incentives have become a necessity because of the economic competitiveness that exists between regions and states. Proponents believe that business incentives have a positive effect on business-location decisions. On the other hand, opponents contend that relocating businesses from one area or state to another is a zero-sum game that, in the aggregate, creates little, if any, economic benefit. Opponents also contend that the dollars spent to provide incentives would be better used if applied to other services believed to be more important in economic development, such as improvements to the infrastructure and investments in human resources and education.

Concern also exists that federal programs are being used and, in some cases, misused to provide incentives for luring businesses into relocating from one area to another. Federal programs provide state and local governments with loans and grants that can be used for transportation projects, waste treatment facilities, worker training, and other types of services that can be used as incentives. Newspaper articles have chronicled stories of how one community allegedly used federal funds to lure jobs from another community or how a community allegedly used federal funds to provide low-interest loans for retaining a business within its jurisdiction only to see the business move out of the community at a later date.

Economic Development Activities of the Eight Federal Programs

The eight federal programs provide loans and grants that states, communities, and others can use for funding a variety of activities for which the economic development of an area or of individuals is the intended or possible offshoot benefit. An overview of each program that describes the program's objectives and eligible activities, the types of funding provided, the entities eligible to receive program funding, the funding provided in fiscal year 1996, and a description of projects funded follows. Appendix I describes the programs in greater detail.

EDA's Public Works and Development Facilities Program

- Objectives, eligible activities, and types of funding provided: EDA's Public Works and Development Facilities Program provides grants for helping finance projects in distressed communities to attract new industry, encourage business expansion, and generate long-term, private-sector jobs. Grants can be used for a variety of projects, including water and sewer systems serving primarily industrial and commercial users; access roads and other industrial park infrastructure improvements; port facilities; railroad sidings; tourism facilities; and vocational schools used primarily to train unemployed and underemployed adults. Funds can be used to acquire and develop land for these facilities and to construct, rehabilitate, alter, or expand them. Projects must be located within an EDA-designated redevelopment area.
- Entities eligible to receive funding: States, cities, counties and other political subdivisions, Indian tribes, commonwealths and territories, and private and public nonprofit organizations representing redevelopment areas are eligible to receive grants.
- Funding provided in fiscal year 1996: Public Works and Development Facilities grants normally cover up to 50 percent of a project's cost; the remainder of a project's funding is provided by the grantee. In fiscal year 1996, EDA awarded 158 Public Works and Development Facilities grants totaling $164.9 million.
- Description of projects funded: The largest share of Public Works and Development Facilities grant dollars awarded in fiscal year 1996—about $77 million, or 47 percent—went for projects involving water and sewer facilities. Other types of projects funded in fiscal year 1996 included industrial parks, industrial buildings, streets and roads, harbor development, and airports.

HUD's Community Development Block Grant Program

- Objectives, eligible activities, and types of funding provided: HUD's CDBG Program provides communities with grants for activities that will benefit low- and moderate-income people, prevent or eliminate slums or blight, or

meet urgent community development needs. CDBG funds can be used for a variety of activities, including to acquire, construct, or reconstruct public facilities, such as hospitals, nursing homes, and water and sewer facilities; provide new or expand existing crime prevention, child care, and other public services; rehabilitate housing; carry out special economic development projects, including the construction or reconstruction of commercial or industrial facilities; and provide community organizations with assistance for economic development and neighborhood revitalization projects.

- Entities eligible to receive funding: The Entitlement Communities Program, which provides grants to large cities—those that are a central city of a metropolitan area or any other city within a metropolitan area that has a population of 50,000 or more—and to urban counties—counties within a metropolitan area with populations of 200,000 or more (excluding the population of metropolitan cities included therein)—and the State and Small Cities Programs, which provide states with grants for distribution to the smaller, nonentitled communities, are the major components of the CDBG Program.[2] Grants are based on formulas that consider population, the extent of poverty, the extent of overcrowding, and the age of housing of the entitled community or state. Because low- and moderate-income persons are the principal beneficiaries of CDBG funds, at least 70 percent of CDBG expenditures must be for activities primarily benefiting such persons.
- Funding provided in fiscal year 1996: Of the $4.6 billion in funds appropriated for the CDBG Program for fiscal year 1996, the Entitlement Communities and the State and Small Cities Programs together received about $4.4 billion.
- Description of projects funded: HUD's data for 1993—the most recent year for which complete data are available—show that housing rehabilitation was the most prominent activity funded by entitled communities, accounting for about 31 percent of the funds spent during the year. Water and sewer activities were the most prominent activity funded by nonentitled communities, accounting for about 29 percent of the funds spent during the year. CDBG funds were used for, among other things, 3,000 projects to improve water, sewer, flood control, and drainage systems; 3,700 projects to repair or maintain roads, bridges, and sidewalks; and over 8,200 projects to construct or rehabilitate public facilities, such as facilities for abused and neglected children and child care and senior-citizen centers. HUD estimates that about 115,000 jobs were created in 1993 through the CDBG Program.

[2]Two states—Hawaii and New York—have elected neither to operate the CDBG State Program nor administer CDBG nonentitlement funds. HUD continues to administer the CDBG Small Cities Program and award competitive grants to nonentitlement communities in these states.

HUD's and Agriculture's Empowerment Zone and Enterprise Community Program

- Objectives, eligible activities, and types of funding provided: The EZ/EC program is a 10-year program administered by HUD and Agriculture that targets federal grants and provides tax and regulatory relief for helping distressed urban and rural communities overcome their economic and social problems. Funding for the EZ/EC Program is provided primarily by HHS' SSBG Program. EZs and ECs can use EZ/EC SSBG grants to fund a range of economic and social development activities that are identified in their strategic plans. The strategic plan, developed in conjunction with residents and other stakeholders in the community, outlines the community's vision for revitalizing its distressed areas and the activities and projects planned to accomplish this task. In addition to the EZ/EC SSBG funds, EZs can receive special tax incentives and other assistance, while ECs qualify only for the special tax incentives.
- Entities eligible to receive funding: In December 1994, HUD and Agriculture designated 104 communities as either EZs or ECs.
- Funding provided before and during fiscal year 1996: In 1994 and 1995, HHS allocated $100 million in EZ/EC SSBG grants for each of the 6 urban EZs, $40 million for each of the 3 rural EZs, and just under $3 million for each of the 95 urban and rural ECs for use over the 10-year life of the program. EZs and ECs draw down EZ/EC SSBG funds through the state or their cognizant state agency as needed for specific projects. As of June 30, 1997, EZs and ECs had requested $119.9 million of the $1 billion in total SSBG funds allocated by HHS.
- Description of projects funded: Projects funded by urban EZs and ECs include (1) a partnership in the Chicago EZ with a local college to prepare students for the General Educational Development tests, (2) a school-based program to reduce alcohol- and drug-related violence in the Detroit EZ, and (3) buying sites for a supermarket and retail stores in the Philadelphia EZ to create jobs for residents. Projects that rural EZs and ECs plan to fund include (1) establishing family service centers in the Central Savannah River Area EC in Georgia to provide recreation and leadership classes for youth and adult literacy classes, (2) refurbishing retail business facades in the City of Watsonville EC in California to improve the downtown area, and (3) building and equipping four rural fire stations in the Kentucky Highlands EZ.

Labor's Employment and Training Assistance for Dislocated Workers Program

- Objectives, eligible activities, and types of funding provided: Labor's Employment and Training Assistance for Dislocated Workers Program, authorized under title III of JTPA, as amended, provides states and substate organizations with grants to help dislocated workers qualify for and find new jobs. Dislocated workers are those who have lost jobs because of

mass layoffs or plant closings and include the long-term unemployed and unemployed self-employed workers and those individuals who have been laid off or notified of a layoff and who are unlikely to return to their previous occupation or industry. State and substate grantees can tailor the services for dislocated workers to meet participants' needs. Services that can be provided for dislocated workers include (1) retraining services, including classroom and on-the-job training, basic and remedial education, and instructions in English; (2) basic readjustment services, such as job counseling, job placement assistance, labor market information, and supportive services, including child care and commuting assistance; and (3) needs-related payments to eligible dislocated workers who have exhausted their unemployment compensation and who require such assistance to participate in a job training program.

- Entities eligible to receive funding: Eighty percent of the title III funds provided for the Employment and Training Assistance for Dislocated Workers Program are allotted to states on the basis of a formula that considers the states' unemployment levels. The remaining 20 percent of funds are retained by Labor and used to provide assistance to territories, to fund multistate projects, to provide assistance to workers dislocated by natural disasters, and to supplement state grants when they are not sufficient to provide services for workers dislocated by mass layoffs, including those resulting from federal actions, such as reductions in defense spending or compliance with Clean Air Act requirements.
- Funding provided during fiscal year 1996: Of the approximately $1.09 billion in total Employment and Training Assistance for Dislocated Workers Program grants for program year 1996,[3] about $880 million was allotted to the states and about $214 million was retained in reserve by Labor.
- Description of projects funded: Data provided by Labor show that during program year 1995, the 268,000 individuals who completed training and left the program received assistance through the Employment and Training Assistance for Dislocated Workers Program, including about 125,000 who received basic readjustment services only, about 119,000 who received occupational training, and about 78,000 who received supportive services.

HHS' Community Services Block Grant Program

- Objectives, eligible activities, and types of funding provided: HHS' CSBG Program provides states with grants to alleviate the causes of poverty by helping low-income individuals and families obtain adequate jobs,

[3]Funds for the JTPA programs are provided on a program-year basis, which runs from July 1 through June 30, annually.

education, and housing. CSBG funds can be used to provide (1) a range of services and activities having a major impact on the causes of poverty; (2) activities designed to assist low-income participants; (3) supplies, services, and nutritious food on an emergency basis to counteract the conditions of malnutrition among the poor; and (4) coordination and linkage between governmental and other social services programs to ensure the effective delivery of such services to low-income individuals.

- Entities eligible to receive funding: CSBG funds are allocated to the states, and the states must pass through at least 90 percent of the funds they receive to locally based community action agencies that provide CSBG services. The states may use the remaining funds for antipoverty projects in the state and to administer the program.
- Funding provided during fiscal year 1996: HHS provided states with $389.6 million in CSBG funding for fiscal year 1996.
- Description of projects funded: HHS' data for fiscal year 1994—the latest year for which complete data are available—show that CSBG funding totaled $357.4 million and that the largest share of funds—$98.4 million—was spent on activities to target and coordinate the array of local services and programs available to combat poverty. About $73.1 million was spent for emergency services, such as shelter and food assistance; $43.8 million for nutrition programs; and $35.4 million and $25.7 million, respectively, for education and employment activities.

EPA's Clean Water State Revolving Fund Program

- Objectives, eligible activities, and types of funding provided: EPA's Clean Water State Revolving Fund Program provides the states, including Puerto Rico, with annual funds to help capitalize revolving funds established by the states to finance wastewater treatment facilities and other water quality projects needed to improve water quality and protect public health.[4] Grants are allotted to the states generally according to percentages specified in the Clean Water Act. States must match grants at a rate of at least $1 for every $5 received. States can use their revolving funds to provide loans and other assistance (but not grants) for (1) constructing publicly owned wastewater treatment facilities; (2) implementing programs to control nonpoint sources of water pollution, such as agricultural runoff; and (3) developing and implementing plans to conserve and manage estuaries.
- Entities eligible to receive funding: State, municipal, tribal, intermunicipal, and interstate agencies are eligible for loans and other assistance for state revolving funds. Individuals can also receive assistance for activities to

[4]The District of Columbia, Virgin Islands, and other territories of the United States are not required to establish revolving fund programs. The construction of wastewater treatment facilities in these jurisdictions is funded by grants from EPA.

control nonpoint sources of water pollution and to conserve and manage estuaries. Wastewater treatment projects financed by the revolving funds must be on the state-prepared project priority list. The list identifies and ranks treatment facilities that the state expects to fund. Activities that a state intends to fund to control nonpoint sources of water pollution and to protect estuaries must be included in the state's annual plan identifying the state's intended use of the fund.

- Funding provided during fiscal year 1996: During fiscal year 1996, EPA awarded about $1.7 billion in capitalization grants to the states. EPA anticipates that grants to capitalize state revolving funds will continue until 2004. According to the Director, EPA State Revolving Fund Branch, wastewater treatment facilities account for about 95 percent of the dollars in assistance provided by state revolving funds.
- Description of projects funded: Data from EPA's State Revolving Fund Management Information System show that as of June 30, 1996, facilities for the secondary treatment of wastewater represented about 50 percent of the total projects funded by state revolving funds; other types of projects included combined sewer overflow projects, facilities to handle and treat sludge at water treatment plants, and projects to protect or restore streams, wetlands, and estuaries.

Agriculture's Water and Waste Disposal Program

- Objectives, eligible activities, and types of funding provided: The Water and Waste Disposal Program provides loans and grants for rural communities with populations of 10,000 or less to develop water and waste disposal systems that will improve the quality of life and promote economic development in rural areas. Assistance can be in the form of direct loans and/or grants from Agriculture or loans from commercial sources that are guaranteed against loss by Agriculture. Grants are provided for reducing water and waste disposal costs to a reasonable level for projects serving financially needy communities. Water and Waste Disposal loans and grants may be used to construct, repair, improve, expand, or modify rural water, sanitary sewage, solid waste disposal, and storm wastewater disposal systems. Facilities that may be funded include reservoirs, pipelines, wells, pumping stations, and sewer and storm sewer systems. Funds can be used to acquire land and water rights and to pay legal, engineering, and other fees associated with developing facilities.
- Entities eligible to receive funding: Assistance is available to municipalities, counties, Indian tribes, special purpose districts, and nonprofit corporations. Applicants must be unable to obtain other financing at reasonable rates and terms.

- Funding provided during fiscal year 1996: In fiscal year 1996, Agriculture provided about $963 million in Water and Waste Disposal direct loans and grants. In addition to the direct loans and grants, Agriculture also guaranteed about $59 million in loans.
- Description of projects funded: Of the $963 million obligated in fiscal year 1996, 617 direct loans worth about $389 million and 435 grants worth about $198 million were provided for rural water projects. Agriculture also provided 278 loans worth about $214 million and 233 grants worth about $162 million for rural waste disposal projects.

Transportation's Surface Transportation Program

- Objectives, eligible activities, and types of funding provided: Transportation's Surface Transportation Program (STP) provides states with grants for a variety of highway, mass transit, pedestrian, bikeway, and intermodal transportation projects. STP funds are apportioned on the basis of historical federal funding that indirectly includes factors such as postal route mileage, land area, and the urban and rural population of each state. Each state must reserve 10 percent of its STP allotments for safety construction activities, such as rail-highway grade crossings, and 10 percent for transportation enhancements, such as the control and removal of outdoor advertising. Of the remaining funds, the state must distribute 62.5 percent between urbanized areas that have populations exceeding 200,000 and the remaining areas of the state in proportion to their relative share of the state's population. States can use the remaining 37.5 percent in any area of the state.
- Entities eligible to receive funding: Localities, especially larger communities, are given an unprecedented level of control to select the surface transportation solutions that best fit their needs and preferences. Projects that can be funded with STP grants include (1) highway and bridge construction, reconstruction, and rehabilitation projects; (2) transit projects, including publicly owned intracity or intercity bus terminals and facilities; (3) car pool projects, corridor parking facilities, bicycle transportation, and pedestrian walkways; (4) highway and transit safety improvements, projects to mitigate hazards caused by wildlife, and rail-highway grade crossings; and (5) capital and operating costs for traffic monitoring, management, and control facilities and programs.
- Funding provided during fiscal year 1996: Transportation apportioned about $3.4 billion in STP funds to the states for fiscal year 1996.

- Description of projects funded: In fiscal year 1996, Transportation obligated[5] STP funds for a variety of activities, including $416.6 million for safety construction activities, $426.9 million for transportation enhancement projects, $1 billion for projects in urbanized areas with populations exceeding 200,000, and $2.8 billion for state-discretionary projects in any area of the states.

Three Programs Have Relocation Restrictions

Three of the eight programs—the Public Works and Development Facilities Program, the Employment and Training Assistance for Dislocated Workers Program, and the EZ/EC Program—have restrictions against using program funds to relocate businesses if the relocations result in the loss of jobs in other areas. In May 1997, the House of Representatives passed legislation that would, among other things, prohibit using HUD's CDBG funds to relocate businesses if the relocation results in plant closings or job losses in other areas where the business is operating. As of August 1, 1997, this legislation was pending in the Senate. A second bill that would also prohibit using CDBG funds to relocate jobs was pending in the Senate at that time. The remaining four programs—HHS' Community Services Block Grant Program, EPA's Clean Water State Revolving Fund Program, Agriculture's Water and Waste Disposal Program, and Transportation's Surface Transportation Program—do not address the issue of using program funds to relocate jobs.

Public Works and Development Facilities Program's Nonrelocation Requirement

EDA's current regulations generally prohibit using Public Works and Development Facilities grants to assist employers who transfer one or more jobs from one commuting area to another.[6] EDA's nonrelocation requirement is applicable only to firms relocating to EDA-funded project areas until the time that EDA approves a grant; EDA's nonrelocation requirement does not apply after the grant is approved. This change was made in October 1995, when EDA revised its regulations. EDA's 1995 revision to the regulations also allowed for exclusions from the nonrelocation requirement for businesses that (1) relocate to the area prior to the applicant's request for EDA's assistance; (2) have moved or will move primarily for reasons that have no connection to EDA's assistance; (3) will expand employment in the area where the project is located

[5]An obligation is a commitment by the Department of Transportation to pay, through reimbursement to the states, the federal share of a project's eligible costs. Funds obligated in fiscal year 1996 exceeded the funding apportioned in that year because federal-aid highway funds are available for use (available for obligation) for more than 1 year.

[6]EDA defines a commuting area as the distance that people travel to work in the locality of the project receiving financial assistance from EDA.

substantially beyond employment in the area where the business was originally located; (4) are relocating from technologically obsolete facilities; (5) are expanding into the new area by adding a branch, affiliate, or subsidiary while maintaining employment levels in the old areas; or (6) are determined by EDA to be exempt from the requirement. Before the October 1995 changes, EDA's prohibition against relocating jobs applied for a period of 48 months from the date when EDA awarded the grant, and the nonrelocation requirement could be waived only with the written consent of EDA's Assistant Secretary.

EDA's Acting Chief Counsel told us that several factors contributed to EDA's 1995 changes to the nonrelocation requirement. This official told us that EDA spent a great deal of time and effort monitoring projects funded by EDA but found very few cases where businesses relocated jobs after EDA had approved a grant. He said that as a result, EDA saw no need to continue monitoring projects after funding was approved when such monitoring was not needed and thus would consume valuable EDA resources that could be used more effectively elsewhere.

In addition, EDA's Acting Chief Counsel told us that the exclusion provision enables EDA to better use Public Works and Development Facilities grants to achieve their purpose of creating jobs in distressed area. He said that firms may decide to relocate simply because the area where they are located cannot accommodate planned expansion and growth. He said that in the past, such firms, which are going to relocate anyway, could not relocate to an EDA project site without penalty to the project grantee because of the prohibitions in effect under the old regulations. However, this official said that with the exclusion provision that EDA adopted in October 1995, firms may decide to locate in distressed areas, where jobs are needed, rather than move to an area that may not need the jobs as much.

Employment and Training Assistance for Dislocated Workers Program's Nonrelocation Requirement

Section 141 of JTPA, as amended, prohibits using any JTPA funds to encourage or induce a business to relocate if the relocation results in the loss of employment for any employee at the business' original location.[7] This section also provides that if a business relocates and the relocation results in the loss of any employee's job at the business' original location, JTPA funds cannot be used by the relocating business for customized or skill training, on-the-job training, or company-specific assessments of job

[7]In addition to prohibiting the use of JTPA funds to encourage or induce businesses to relocate, section 141 also prohibits using any JTPA funds for economic development and employment-generating activities.

applicants or employees for the first 120 days after the business commences operation at its new location. A relocating business is one that moves any operation from a facility in one labor market to a new or expanding facility in another market.

The Congress adopted these two prohibitions when it amended JTPA in 1992. Prior to the 1992 amendments, JTPA provided that funds could not be used to help relocate establishments from one area to another unless the Secretary determined that such relocations would not increase unemployment in the area where the company was originally located. The conference report on the 1992 amendments to JTPA do not explain Congress' rationale for these amendments. However, according to Labor's Employment and Training Administration, the 120-day provision was added because the language in the legislation before 1992 was broad and ambiguous and because it was difficult to determine whether there was an impact on local unemployment.

EZ/EC Program's Nonrelocation Requirement

The Omnibus Budget Reconciliation Act of 1993 provides that the strategic plans prepared by EZs and ECs may not include any assistance to relocate businesses into an EZ or EC if (1) the establishment of a new branch, affiliate, or subsidiary will increase unemployment in the area of the business' original location or (2) there is reason to believe that the new branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity at its original location or in any other area where the business is operating. The strategic plan, which is developed with input from community stakeholders such as residents, businesses, financial institutions, and local governments, outlines how an EZ or EC plans to achieve its goal of revitalizing an area. HUD and Agriculture have incorporated these relocation restrictions into their implementing regulations.

CDBG Program's Pending Nonrelocation Requirement

Introduced in January 1997, the Housing Opportunity and Responsibility Act of 1997 (H.R. 2) proposes to reform the nation's public housing programs. A section in this legislation would prohibit using CDBG funds for any activity that is intended or likely to facilitate the relocation or expansion of any industrial or commercial plant, facility, or operation from one area to another if the relocation or expansion will result in the loss of employment in the area from which the relocation or expansion occurs. On May 14, 1997, the House of Representatives passed H.R. 2. As of August 1, 1997, the legislation was pending in the Senate.

In February 1997, the Prohibition of Incentives for Relocation Act (S. 300) was introduced in the Senate to specifically prohibit the use of CDBG funds for relocating jobs. The legislation proposes that no CDBG funds can be used for any activity that is intended or likely to facilitate the closing or substantial reduction of operations of a plant at one location and the relocation or expansion of the plant at another location. This Congress—the 105th—was the third consecutive Congress in which this legislation had been introduced. The legislation was first introduced in 1994 after a major corporation announced its plans to relocate 2,000 jobs from a city in Wisconsin to other locations, including two areas that had used community development funds to expand their operations. As of August 1, 1997, this legislation was pending before the Senate Committee on Banking, Housing and Urban Affairs.

Procedures for Ensuring Compliance With Nonrelocation Requirement

To ensure compliance with its nonrelocation requirement, EDA relies on assurances from applicants and certifications from businesses that the businesses' relocation to project areas funded by Public Works and Development Facilities grants will not result in the transfer of jobs from other areas to the project area. Similarly, to document compliance with JTPA's nonrelocation requirement, Labor's regulations require that prior to training workers for jobs in businesses, the substate grantees and businesses complete preaward reviews to verify that the businesses are not relocating jobs from one labor market to another. HUD and Agriculture rely on their determinations that EZs' and ECs' strategic plans do not help relocate businesses to ensure compliance with the Departments' nonrelocation requirement.

EDA's Procedures for Ensuring Compliance With Public Works and Development Facilities Program's Nonrelocation Requirement

EDA's current regulations, which were adopted in October 1995, provide that applicants for Public Works and Development Facilities grants must notify EDA of any business that will benefit from the project funded with the EDA grant. The regulations also require that each business identified by the applicant submit a nonrelocation certification to EDA as part of the application package certifying that (1) the business does not intend to transfer one or more jobs (not persons) from other commuting areas to the one where the project is located and (2) the business has not located and will not locate to the project area before EDA's approval of the grant in order to avoid the restrictions of the nonrelocation certification. If a business has already relocated jobs from another commuting area to the commuting area where the project will be located or has plans to do so, it must provide EDA with a full explanation so that EDA can determine if the

business qualifies for an exclusion from the nonrelocation requirement. Under EDA's regulations, EDA will determine compliance with the nonrelocation requirement prior to its grant award on the basis of information provided by the applicant during the project selection process.

Labor's Procedures for Ensuring Compliance With Employment and Training Assistance for Dislocated Workers Program's Nonrelocation Requirement

Labor relies primarily on the states to ensure compliance with JTPA's nonrelocation requirement. Labor's regulations require that as a prerequisite to providing a new or expanding business with JTPA's assistance for worker training, a standardized preaward review, developed by the state, must be completed to verify that the business is not relocating jobs from one labor market area to another. The review is to be completed and documented jointly by the substate grantee or other organization providing the job training assistance contracts and the business that is providing the on-the-job training or for which other customized training is being provided.

To assist the states in carrying out their preaward reviews, Labor's regulations identify the minimum information that such reviews should cover, including the name under which the facility does business, the name and address of the facility in the other area that is being closed or from which business is being transferred, the nature of the products or the business being transferred, the date that the new or expanded facility will commence operation, and a statement from the employer about job losses at the old location. Labor's regulations require that the Secretary of Labor investigate any alleged violations of the relocation prohibition but does not require Labor's periodic monitoring of state activities. In addition, the regulations do not require that the states submit the preaward reviews to Labor.

HUD's and Agriculture's Procedures for Ensuring Compliance With EZ/EC Program's Nonrelocation Requirement

HUD and Agriculture have incorporated into their program regulations the provision in the Omnibus Budget Reconciliation Act against using EZs'/ECs' assistance to relocate businesses. As under the act, HUD's and Agriculture's regulations prohibit the EZs' or ECs' strategic plans from containing any language stating that assistance will be provided for relocating businesses from non-EZ or non-EC areas.

In a November 1996 memorandum from HUD to the Atlanta EZ, HUD advised the EZ that after conferring with HHS, it was determined that the prohibition in the law does not prohibit an EZ, during the implementation of its plan,

from using EZ/EC SSBG funds to finance activities that may assist a business relocating to the EZ. The memorandum went on to state that the section of the act dealing with the nonrelocation prohibition relates to a business relocation tactic included in a strategic plan submitted during the application phase of the program and that the section says nothing about actions that occur during implementation. The memorandum also stated that the language in the act relating to business retention occurs in the section of the act dealing with the designation of an area as an EZ or EC and not in the portion of the act authorizing the use of EZ/EC SSBG funds.[8]

In our initial meeting with HUD officials to discuss this memorandum, the Deputy Director, Office of Economic Development, told us that the memorandum was prepared by his office following consultation with and guidance from HHS. In a subsequent meeting, HUD's Deputy Assistant Secretary responsible for the program told us that the memorandum was being withdrawn. This official also stated that it has always been HUD's position that EZ/EC SSBG funds should not be used to relocate jobs. This official told us that HUD plans to issue guidance in the very near future that will (1) clarify HUD's position that EZ/EC SSBG funds should not be used to relocate jobs and (2) outline HUD's intent to withhold funds if EZs and ECs do not comply with the policy.

In commenting on this report, HHS disagreed with HUD's portrayal of the role that HHS played in the development of the November 1996 memorandum to the Atlanta EZ. HHS stated that it did not provide HUD with guidance stating that the statutory language would have an effect only during the application process. Rather, HHS stated that HUD personnel conferred with HHS staff and asked them to agree with HUD's interpretation of the statute. HHS stated that because HUD is the lead agency for the urban EZ/EC program, HHS staff deferred to HUD on this policy decision.

Types of Incentives and Role They May Play in Business Relocations

Tax concessions, financial assistance, and other benefits may be used by states and communities to attract and keep businesses. The extent to which these incentives are paid by the federal government or by state and local governments is difficult to ascertain. Local economic development organizations may receive money from state programs that commingle state and federal dollars. Even if the ultimate source of the funding for business incentives is from state or local governments, federal

[8]For additional information on the implementation and oversight of the EZ/EC program, see Community Development: Status of Urban Empowerment Zones (GAO/RCED-97-21, Dec. 20, 1996) and Rural Development: New Approach to Empowering Communities Needs Refinement (GAO/RCED-97-75, Mar. 31, 1997).

expenditures may influence the level of incentives offered by state and local governments. If federal funds are used for an activity that the state or community would have undertaken anyway, money is freed up for states or communities to use for such activities as the provision of business relocation incentives.

The use of state and local incentives expanded during the late 1970s and throughout the 1980s. However, the growth has slowed in the 1990s. The National Association of State Development Agencies stated that in 1994, over 500 different incentive programs were in use by states. A 1997 report by the Council of State Governments shows that over 40 states now offer tax and financial programs to create, retain, or lure jobs.[9] But 32 states plan to hold the line or cut spending over the next 5 years. These states cited many reasons for not expanding their incentives, including a feeling that (1) current levels were sufficient, hence, little marginal impact could be expected from expanding the programs and (2) there was little payoff from bidding wars between states to lure businesses. Also, some states report a change in emphasis from attracting new firms to retaining existing ones.

Many studies have examined the relationship between state and/or local business incentives and changes in economic activity. Most early studies found that incentives had little or no effect on an area's economic development. For instance, studies done in 1979 and 1983 found that state business incentives had little influence on the stimulation of new business, measured either by the number of firms or by the firm's size.[10] Wage rates, energy costs, and the availability of skilled labor were all found to be more important influences on the creation and expansion of business firms.

Later work has refined this conclusion. Incentives may produce an impact in some industries, such as manufacturing.[11] A 1991 study found that manufacturing and capital-intensive industries are more affected by tax considerations than are other businesses.[12] Also, state and local business

[9]State Business Incentives: Trends and Options for the Future, The Council of State Governments (1997).

[10]Dennis Carlton, "Why New Firms Locate Where They Do: An Econometric Model" in Interregional Movements and Regional Growth, ed. W. Wheaton, Urban Institute (1979), and Dennis Carlton, "The Location and Employment Choices of New Firms: An Econometric Model With Discrete and Continuous Endogenous Variables," The Review of Economics and Statistics (1983).

[11]For example, see "Does State Economic Development Spending Increase Manufacturing Employment?" by C. De Bartolome and M. Spiegel in the Journal of Urban Economics (1997).

[12]Timothy J. Bartik, Who Benefits From State and Local Economic Development Policies? (Kalamazoo: W. E. Upjohn Institute for Employment Research, 1991).

policy may have stronger influences on where firms locate within a region. The selection of a region for an investment may be driven by economic criteria, such as the availability of labor and transportation and proximity to markets, while the selection of a particular site within a region may be influenced by the availability of incentives. A 1983 study, for instance, found that property taxes were an important disincentive to firms relocating within the Detroit metropolitan area.[13] The magnitude of these impacts and the set of industries for which they might occur is still the subject of debate in academic publications.

Surveys of businesses, such as the Fortune Market Research Survey,[14] also find that relocation incentives are not the most important factors in plant location decisions. The Fortune Market Research Survey ranks financing inducements 15th in importance, far behind such factors as worker productivity, efficient transportation, and the state or local government's attitude toward businesses. Both academic researchers and government officials who administer economic development programs cite several factors that may limit the effectiveness of business incentives. The value of the incentives offered is often small in relation to the differences between locations in the costs incurred by firms, such as labor and transportation costs. Incentives may represent a zero-sum gain, in which the value of one state's incentives is offset by the incentives offered by competing states. Finally, incentives offered to new businesses to locate in an area may give them a competitive edge over existing businesses, thus causing a shift in economic activity from established firms to new firms but causing little change in a region's overall economic activity.

Agency Comments

We provided Agriculture, Commerce, HHS, HUD, Labor, Transportation, and EPA with a draft of this report for review and comment. Agriculture, Transportation, and EPA informed us that they had no comments. Commerce, HHS, HUD, and Labor provided us with written comments in which they generally agreed with the report's observations.

Commerce, however, took issue with a statement in our draft report that EDA's programs are among the federal programs that are frequently cited as being used in incentive packages. Commerce pointed out that EDA is unaware of any citations or complaints about its Public Works Program or

[13]Alberta Charney, "Intraurban Manufacturing Location Decisions and Local Tax Differentials," Journal of Urban Economics (1983).

[14]"Why Corporate America Moves Where," Fortune Market Research Survey, New York Times, Inc. (1982).

any of its other programs being used for relocation purposes. The statement in our draft report was based on discussions with associations representing states and communities and was not meant to infer that particular programs had been used to relocate jobs. As we note in our report, incentive packages are used to attract new or expanding jobs to an area, which is often the purpose of EDA's assistance. However, because of the concern and confusion that this statement has caused, we have deleted it from our final report. Commerce also noted that it has requested proposals for the development of a tool to evaluate state incentive programs and recommendations on the appropriate federal role in locational incentives. It expects the final report on this project in June 1998.

HHS and HUD provided comments relevant to the section of the report that discusses EZs/ECs and the use of SSBG funds for the relocation of jobs. HHS took issue with HUD's portrayal of the role that HHS played in the development of the November 1996 memorandum that HUD sent to the Atlanta EZ. In that memorandum, HUD advised Atlanta that the law does not prohibit an EZ, during the implementation stages of its plan, from using SSBG funds to relocate businesses to the EZ. HHS stated that the memorandum implies that HHS provided HUD with guidance about interpreting the statutory language to have an effect only during the application process. HHS stated that HUD personnel conferred with HHS staff and asked them to agree with HUD's interpretation of the statute. According to HHS, because HUD is the lead agency for the urban EZ/EC program, HHS staff deferred to HUD on this policy decision. Because the exact role that each agency played in developing this policy is unclear, we have included language reflecting HHS' position in the sections of the report that discuss the November 1996 memorandum. In its comments, HUD reiterated that it will soon issue guidance clarifying its policy on the use of SSBG funds for the relocation of jobs and included the draft guidance as an enclosure.

Labor pointed out that while our report deals with title III of JTPA and the services that are available to eligible dislocated workers, section 141 of JTPA deals with all training programs under the act, including those involving disadvantaged youths and adults, migrant and seasonal farm workers, Native Americans, and older Americans. We agree and make this point in the report. The sections of our report that discuss the relocation prohibition under section 141 of JTPA state specifically that this prohibition applies to all funds provided under JTPA. Labor also commented that in addition to the relocation prohibition, there is a prohibition against using

JTPA funds for economic development or employment-generating activities and that it is important to put this into the context of the training services that are available to help dislocated workers return to the workforce. We agree with Labor and have added language to the report to reflect these prohibitions.

Commerce, HUD, and Labor also included attachments/enclosures with clarifying language and technical corrections for their respective programs, which we incorporated into the report where appropriate. The written comments from Commerce, HHS, HUD, and Labor and our responses appear in appendixes II through V, respectively.

Scope and Methodology

To determine the economic development activities that eight major federal programs fund for the benefit of states and communities, we reviewed the 1996 Catalog of Federal Domestic Assistance,[15] program legislation and regulations, budget information, and annual and other program reports prepared by the agencies administering the programs and by others. We developed descriptive information for each program, including the program's purpose and objectives, the type(s) of financial assistance provided, the entities that are eligible to receive program assistance, the types of projects and activities that can be funded, and the amount of assistance provided in fiscal year 1996.

To determine (1) which programs have legislative or regulatory restrictions on using program funds to relocate existing businesses and jobs (2) for those programs with restrictions, the procedures that federal agencies have established to ensure that states and communities comply with such restrictions, we reviewed program legislation and regulations, congressional reports accompanying program legislation, agencies' operating procedures, and other documents relating to the relocation prohibitions. We discussed the restrictions and procedures with agency officials as well as how the restrictions and procedures have changed and the reasons for any changes. We did not assess whether states and communities are complying with these restrictions or the adequacy of agencies' procedures in ensuring that program assistance is not used to relocate existing businesses and jobs.

To obtain information on the nonfederal economic incentives available to states and communities to attract businesses and jobs, we (1) analyzed

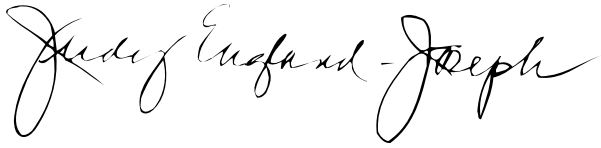
[15]The Catalog is a governmentwide compendium of federal programs, projects, services, and activities that provide assistance and benefits.

reports written by industry and government associations and (2) interviewed industry experts. We summarized the types of state and local incentives available and the role that incentives may play in a business' decision to relocate. We also discussed with industry experts the issue of federal funds freeing up state funds and the impact that state-provided incentives may have on a state's ability to provide other state services.

We conducted our work from January through July 1997 in accordance with generally accepted government auditing standards.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days from the date of this report. At that time, we will send copies to the appropriate congressional committees; the Secretaries of Agriculture, Commerce, HHS, HUD, Labor, and Transportation and the Administrator, EPA; the Director, Office of Management and Budget; and other interested parties. Copies will be made available to others upon request.

If you have any questions, please call me at (202) 512-7632. Major contributors to this report are listed in appendix VI.



Judy A. England-Joseph
Director, Housing and Community
Development Issues

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Abbreviations

CDBG	Community Development Block Grant (Program)
CSBG	Community Services Block Grant (Program)
EDA	Economic Development Administration
EPA	Environmental Protection Agency
EZ/EC	Empowerment Zone and Enterprise Community (Program)
GAO	General Accounting Office
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
ISTEA	Intermodal Surface Transportation Efficiency Act of 1991
JTPA	Job Training Partnership Act
MSA	Metropolitan Statistical Area
OCS	Office of Community Services
OEDP	Overall Economic Development Program
SSBG	Social Services Block Grant
STIP	statewide transportation improvement program
STP	Surface Transportation Program
TIP	transportation improvement program

The Eight Federal Programs

This appendix provides information regarding the purpose and objectives, type of assistance provided, eligible activities, flow of funds from federal agencies to recipients, recipients' role in project selection, amount of assistance provided during fiscal year 1996, and types of projects funded for each of the following programs:

- The Department of Commerce's Economic Development Administration's (EDA) Public Works and Development Facilities Program.
- The Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) Program.
- The Empowerment Zone and Enterprise Community (EZ/EC) Program, administered by the Department of Agriculture and HUD and funded primarily by HHS.
- The Department of Labor's Employment and Training Assistance for Dislocated Workers Program.
- The Department of Health and Human Services' (HHS) Community Services Block Grant (CSBG) Program.
- The Environmental Protection Agency's (EPA) Clean Water State Revolving Fund Program.
- Agriculture's Water and Waste Disposal Program.
- The Department of Transportation's Surface Transportation Program.

Public Works and Development Facilities Program

The Public Works and Development Facilities Program, authorized by title I of the Public Works and Economic Development Act of 1965, as amended, is a key federal program for stimulating economic development in distressed communities. Administered by the Department of Commerce's EDA, the program provides distressed communities with grants to help attract new industry, encourage business expansion, and generate long-term, private-sector jobs.

Program Information

Public Works and Development Facilities grants can be used to finance a variety of projects including water and sewer systems serving primarily industrial and commercial users, access roads and other infrastructure improvements for industrial parks, port facilities, railroad sidings and spurs, tourism facilities, and vocational schools. Grant funds can be used to acquire and develop land for these facilities as well as to construct, rehabilitate, alter, or expand them.

Projects funded with Public Works and Development Facilities grants must fulfill a pressing need of the area and must (1) improve the

opportunities to successfully establish or expand commercial plants or facilities, (2) assist in creating additional long-term employment opportunities, and (3) benefit the long-term unemployed and underemployed and members of low-income families. Also, projects must be located within an EDA-designated redevelopment area or economic development center and must be consistent with the Overall Economic Development Program (OEDP)[16] approved by EDA for the area and have an adequate local share of matching funds. States, cities, counties, and other political subdivisions, Indian tribes, commonwealths and territories of the United States, and private and public nonprofit organizations representing redevelopment areas are eligible for Public Works and Development Facilities grants. Corporations and associations organized for profit are not eligible for grant assistance.

The first step in obtaining an EDA Public Works and Development Facilities grant usually is for the applicant and community leaders to meet with an Economic Development Representative or other appropriate EDA official to explore the applicability of the proposed project for EDA funding. If the proposed project appears to be feasible, the applicant will prepare a brief project proposal, which is submitted to an EDA regional office for review. If the regional office finds that the proposed project qualifies, it will notify the applicant to submit a formal grant application to EDA. The application, among other things, describes the project in detail, discusses how the project will affect the economic development of the community, and provides information on the project's costs, its projected payroll, and the amount of private capital to be invested. Submitting a formal application to EDA does not guarantee that the project will be funded.

Public Works and Development Facilities grants normally cover up to 50 percent of the estimated cost of a project, and the remainder is provided by local sources. Projects located in highly depressed areas may receive a supplementary grant from EDA that brings the federal share of the project up to 80 percent, while Indian tribes are eligible for up to 100-percent funding from EDA.

Project Funding

Funds appropriated for Public Works and Development Facilities grants in fiscal year 1995 totaled $195 million and totaled $165.2 million in fiscal 1996 and fiscal 1997. In fiscal year 1995, EDA approved 182 Public Works

[16]OEDPs are locally developed plans of action for EDA-designated redevelopment areas that describe an area's economic conditions and environment, examine its economic development opportunities, and identify the types of improvements that are needed to promote the area's economic progress and improve community facilities and services.

and Development Facilities grants totaling $194.5 million and 158 grants totaling $164.9 million in fiscal 1996.[17] Table I.1 shows the types of projects funded with grants made during fiscal year 1996.

Table I.1: Distribution of EDA Public Works and Development Facilities Grants in Fiscal Year 1996 by Type of Project

Type of project	Dollars	Percent
Water and sewer systems	$77,530,833	47.0
Industrial parks	26,056,723	15.8
Buildings-industrial/ commercial	21,885,552	13.3
Street and roads	15,505,072	9.4
Harbor development	9,479,895	5.8
Buildings-public	5,650,000	3.4
Education and training	3,395,000	2.1
Airport improvements	1,783,000	1.1
Recreation and tourism	1,375,000	0.8
Area revival	1,150,000	0.7
Health and medical	1,000,000	0.6
Total	**$164,811,075**	**100**

Source: EDA's FY96 Public Works Project Analysis.

EDA, as of mid-April 1997, had awarded 54 Public Works grants totaling $48.6 million for fiscal year 1997, which represented about 29 percent of the $165.2 million appropriated for Public Works and Development Facilities grants for fiscal 1997.

Prohibition Against Using Public Works and Development Facilities Grants to Relocate Businesses

Section 202 of the Public Works and Economic Development Act of 1965, as amended, prohibits using EDA's financial assistance to assist businesses in relocating from one area to another. Although this section of the act pertains specifically to EDA's business development assistance program, EDA has applied the nonrelocation requirement to all of its financial assistance programs, including Public Works and Development Facilities grants.

[17]The fiscal year 1995 grant total includes about $20.4 million in EDA Public Works Impact Program grants, while the fiscal 1996 total includes about $5.3 million in such grants. This program provides grants for communities affected by large concentrations of low-income individuals, substantial unemployment levels, or the substantial out-migration of individuals in order to create immediate useful work (i.e., construction jobs) for unemployed and underemployed residents, and at the same time, provide a permanent development facility for the area.

EDA's current regulations, adopted in October 1995, prohibit using Public Works and Development Facilities grants (and other EDA financial assistance) to assist employers who transfer one or more jobs from one commuting area to another.[18] EDA's regulations provide that the nonrelocation requirement shall not apply to businesses that

- relocated to the area prior to the applicant's request for EDA's assistance;
- have moved or will move into an area primarily for reasons that have no connection to EDA's assistance;
- will expand employment in the area where the project is located substantially beyond employment in the area where the business had been originally located;
- are relocating from technologically obsolete facilities to be competitive;
- are expanding into the new area by adding a branch, affiliate, or subsidiary while maintaining employment levels in the old area or areas; or
- are determined by EDA to be exempt.

Up until the time that EDA adopted its current regulations in October 1995, EDA's prohibition against using Public Works and Development Facilities grants or other financial assistance to relocate jobs applied for a period of 48 months from the date that EDA approved the grant or other assistance. In addition, the nonrelocation requirement could be waived only with the written consent of EDA's Assistant Secretary, and EDA was required to terminate the financial assistance of any recipient found violating the nonrelocation requirement. And any recipient violating the requirement had to repay any financial assistance received from the date of the violation. According to EDA's Director, Public Works Division, EDA adopted the 48-month period in the mid-1980s; before then, EDA's nonrelocation requirement applied for a period of 2 years prior to EDA's approval of financial assistance for a project, and no time limit existed afterward.

The Federal Register notice announcing EDA's revised regulations did not explain EDA's rationale for the changes to its nonrelocation requirement. However, EDA's Acting Chief Counsel told us that several factors contributed to the changes. He said that EDA spent a great deal of time and effort monitoring projects funded with Public Works and Development Facilities grants and other EDA assistance when the nonrelocation requirement applied for a period of 48 months after EDA approved financial assistance for a project. Yet, according to this official, EDA found very few cases where a business violated the nonrelocation requirement and

[18]EDA defines a commuting area as the distance that people travel to work in the locality of the project receiving financial assistance from EDA.

relocated jobs to the area where the project was located after EDA approved financial assistance. He said that, as a result, EDA saw no need to keep in place a requirement that would require EDA to monitor projects after financial assistance had been approved, thus consuming dwindling agency resources that EDA could use more effectively elsewhere.

The Acting Chief Counsel also told us that the exclusions from the nonrelocation requirement allowed by the 1995 revision to EDA's regulations will help Public Works and Development Facilities grants to achieve their goal of creating jobs in distressed area. He said that, often times, firms that wish to expand their operations must relocate to another area simply because the area where they are located cannot accommodate expansion and growth. He said that such firms could not relocate to an EDA-funded facility without a penalty to the project grantee under the old regulations because of the relocation prohibition. However, he said that the exclusion provision of EDA's new regulations will enable firms to locate to distressed areas where jobs are needed rather than have the firms locate to an area that does not need the jobs as much.

EDA's Procedures for Enforcing the Relocation Prohibition

EDA's current regulations require that applicants for Public Works and Development Facilities grants must notify EDA of any employer that will benefit from an EDA grant. The regulations require that each business identified by the applicant submit a nonrelocation certification to EDA as part of the application package certifying that (1) the business does not intend to transfer one or more jobs (not persons) from other commuting areas to the one where the project is located and (2) the business has not located and will not locate to the project area prior to EDA's approval of the grant in order to avoid the restrictions of the nonrelocation certification. If a business already has relocated jobs from another commuting area or has plans to do so, it must provide EDA with a full explanation so that EDA can determine if the business qualifies for an exclusion from the nonrelocation requirement. EDA's regulations provide that EDA will determine compliance with the nonrelocation requirement prior to its award of the grant on the basis of information provided by the applicant during the project selection process. EDA's current regulations do not require applicants and businesses to comply with EDA's nonrelocation requirement after EDA approves a grant.

Community Development Block Grant Program

The primary objective of the CDBG Program is to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low and moderate income. Administered by HUD's Office of Community Planning and Development, the CDBG Program provides communities with federal grants to assist them in funding local community development needs. The Entitlement Communities Program, which directly provides large cities and urban counties with grants, and the State and Small Cities Programs, which provide states with grants for distribution to smaller, nonentitled communities, are the major components of the CDBG Program.[19] The CDBG Program also provides grants for certain populations, such as Historically Black Colleges and Universities, and for assisting community development efforts in five designated insular areas—American Samoa, Guam, the Northern Mariana Islands, Palau, and the Virgin Islands. Activities funded by the CDBG Program must meet at least one of three national objectives: benefit low- and moderate-income persons; prevent or eliminate slums or blights; or meet urgent community development needs.

The Entitlement Communities Program

The Entitlement Communities Program is the largest component of the CDBG Program, receiving about 70 percent of the funds appropriated each year for the CDBG Program. Entitled communities are metropolitan cities and urban counties that are (1) local municipal governments with 50,000 or more residents, (2) other jurisdictions designated as central cities of Metropolitan Statistical Areas (MSAs), or (3) counties with populations of over 200,000 in MSAs, excluding the populations of entitled cities within the county boundaries. HUD allocates entitlement grants to the communities on the basis of two statutory formulas that consider population, poverty, the extent of overcrowding, and the age of housing. According to the Director, HUD's Office of Block Grant Assistance, 834 cities and 141 counties qualified as entitled communities in fiscal year 1997.

Entitled communities develop their own programs and funding priorities and can use CDBG grants for various activities, including to

- acquire, construct, reconstruct, or rehabilitate public facilities, including hospitals, nursing homes, halfway houses, battered spouse shelters, and water and sewer facilities;

[19]Two states—Hawaii and New York—have elected not to operate a CDBG State Program or administer CDBG nonentitlement funds in their state. HUD continues to administer the Small Cities Program and award competitive grants to nonentitlement communities in these states.

- preserve historical sites and remove architectural barriers in public facilities that restrict the movement of the handicapped and the elderly;
- establish new or expand existing public services, including those involving employment, crime prevention, child care, health, drug abuse, education, and welfare;
- rehabilitate housing and other publicly owned residential buildings;
- provide direct assistance to expand home ownership opportunities for low- and moderate-income homebuyers, including subsidizing interest rates and acquiring guarantees for mortgage financing from private lenders;
- carry out special economic development projects, including acquiring, constructing, and reconstructing commercial or industrial buildings and facilities, and providing loans, grants, loan guarantees, or other types of assistance to private for-profit businesses for activities to carry out an economic development project;
- provide relocation assistance for individuals, families, and businesses displaced by CDBG activities; and
- provide loans, grants, or other assistance to community-based development organizations to carry out community economic development, neighborhood revitalization, and energy conservation projects.

In addition, a grantee may use up to 20 percent of a CDBG grant (plus program income) for planning and general administrative activities. Entitled communities may contract with local agencies or nonprofit organizations to carry out all or part of their programs. Because low- and moderate-income persons are the principal beneficiaries of CDBG funds, at least 70 percent of CDBG expenditures over a 1-, 2-, or 3-year period must be for activities that principally benefit such persons. CDBG funds may not be used for certain activities, including constructing or rehabilitating facilities used for religious activities, financing facilities or equipment used for political purposes, or constructing or rehabilitating facilities used for the general conduct of government business. In addition, purchasing fixtures, equipment, furnishings, or other personal property; providing subsistence payments to individuals for items such as food, housing, clothing, and utilities; or constructing new, permanent residential housing are also generally ineligible activities.

Although CDBG grants are entitlements, entitled communities must submit a Consolidated Plan, including an annual action plan, to HUD in order to receive their grants. The Consolidated Plan, developed with the input of citizens and community groups, serves as an application for CDBG and

other HUD formula grants and lays out the local priorities of the community, as well as the 3- to 5-year strategy, that the community will follow in implementing the various HUD programs. The annual action plan provides the basis for assessing the performance and results of the CDBG and other HUD-funded programs.

State and Small Cities Programs

The State and Small Cities Programs receive approximately 30 percent of CDBG appropriations to support community development efforts in communities that do not qualify for assistance under the Entitlement Program. Communities eligible for CDBG funds under the State and Small Cities Programs are (1) municipalities with fewer than 50,000 residents, except designated central cities of MSAs, and (2) counties that are not considered urban counties (generally those with populations of 200,000 or less, excluding any entitled cities contained within the counties). HUD allocates grants to the states using a similar statutory formula as used to allocate entitlement grants.

The states, like entitled communities, must submit to HUD Consolidated Plans that describe the states' community development objectives and method of distributing funding among eligible communities. Also, states must annually submit to HUD Performance and Evaluation Reports that include information on communities receiving CDBG funds, the amount of their grants, the types and purpose of activities being funded, and the national objectives being met by each activity. The states develop funding priorities and criteria for selecting projects and awarding CDBG grants exclusively to units of general local government that carry out community development activities. The local governments are responsible for considering local needs, preparing and submitting grant applications to the state, carrying out funded activities, and complying with federal and state requirements. The states are responsible for ensuring that recipient communities comply with applicable state and federal laws and requirements. As with the Entitlement Program, at least 70 percent of the CDBG grant funds spent by communities under the State and Small Cities Programs must be for activities that primarily benefit low- and moderate-income people.

Nonentitled communities can fund the same types of activities as the entitled communities. According to HUD's Office of Block Grant Assistance, approximately 3,000 small cities and counties in nonentitlement areas receive grants each year.

CDBG Funding and Program Results

According to the Director, HUD Office of Block Grant Assistance, CDBG Program appropriations totaled $4.6 billion in fiscal years 1995, 1996, and 1997. Of this amount, the Entitlement Communities Program and the State and Small Cities Programs received $4.49 billion in fiscal year 1995, $4.37 billion in fiscal 1996, and $4.31 billion in fiscal 1997.

According to HUD's Office of Block Grant Assistance, housing rehabilitation is the single most important activity funded by the Entitlement Communities Program. Data provided by HUD's Office of Block Grant Assistance show that for 1993—the most recent year for which complete community development data are available—housing rehabilitation accounted for about 31 percent of the funds spent by entitlement communities. Overall, housing rehabilitation and other housing-related activities such as enforcement of housing codes and new housing construction accounted for about 36 percent of the funds spent by entitlement communities. For the State Program, the HUD data show that water and sewer activities accounted for almost 29 percent of the total funds spent for 1993, while economic development activities accounted for about 20 percent and housing rehabilitation accounted for about 16 percent of the expenditures.

HUD's fiscal year 1996 annual report on the CDBG Program shows that in 1993, the CDBG Program provided funding for thousands of public improvement and service projects in entitled and nonentitled communities including

- 3,000 projects that improved water, sewer flood control, and drainage systems;
- 3,700 street improvement projects that helped communities to repair and maintain roads, bridges, and sidewalks; and
- over 8,200 projects to construct and rehabilitate public facilities, including child care centers, facilities for abused and neglected children, youth and senior centers, and other community buildings.

According to HUD's Office of Block Grant Assistance, about 115,000 jobs were created in 1993 through the CDBG Program.

No Prohibitions Against Relocating Jobs

While grantees are not prohibited from using CDBG Program funds to relocate jobs from one area to another, several efforts are under way in the Congress to impose a nonrelocation requirement on the use of CDBG funds.

Introduced in January 1997, the Housing Opportunity and Responsibility Act of 1997 (H.R. 2) proposes to reform the nation's public housing programs. A section in this legislation proposes to amend the Housing and Community Development Act of 1974 to prohibit the use of CDBG funds for any activity that is intended or likely to facilitate the relocation or expansion of any industrial or commercial plant, facility, or operation from one area to another if the relocation or expansion will result in the loss of employment in the area from which the relocation or expansion occurs. The House of Representatives passed H.R. 2 on May 14, 1997, and forwarded it to the Senate. As of August 1, 1997, H.R. 2 was pending before the Senate Committee on Banking, Housing and Urban Affairs.

In February 1997, the Prohibition of Incentives for Relocation Act (S. 300) was introduced specifically to prohibit the use of CDBG funds to relocate businesses. The legislation proposes that no CDBG funds can be used for any activity that is intended or likely to facilitate the closing—or the substantial reduction of operations of an industrial or commercial plant at one location and the relocation—or the expansion of a plant at another area. The 105th Congress was the third consecutive Congress in which this legislation had been introduced. The first time that this legislation was introduced was in 1994 after a major corporation announced that it planned to relocate 2,000 jobs from a Midwest state to other locations, including two areas that had used community development funds to expand their operations. In commenting on the 1996 legislation, Senator Kohl from Wisconsin noted that the need to prohibit using federal funds to relocate jobs is no less significant now than in 1994. He referred to statements made by a Michigan state official that Michigan would aggressively pursue Wisconsin companies to relocate to Michigan. As of August 1, 1997, this legislation was also pending before the Senate Committee on Banking, Housing and Urban Affairs.

Empowerment Zone and Enterprise Community Program

The EZ/EC Program targets federal grants to distressed urban and rural communities for social services and community redevelopment and provides tax and regulatory relief for attracting or retaining businesses in these communities. The Omnibus Budget Reconciliation Act of 1993, which established the EZ/EC Program, authorized the designation of 104 communities as either EZs or ECs. Federal funding for the EZs and ECs is provided primarily through the Social Services Block Grant (SSBG) Program, which is administered by HHS. In December 1994, the Secretaries of HUD and Agriculture designated 104 EZs and ECs—6 urban EZs, 3 rural EZs, 65 urban ECs, and 30 rural ECs.

Program Information

The Omnibus Budget Reconciliation Act of 1993 established the EZ/EC Program's eligibility criteria, designation procedures, and benefits. The act specified that an area could not be selected as an EZ or EC unless it (1) met specific criteria for characteristics, such as geographic size and poverty rate, and (2) prepared a strategic plan for implementing the program. The strategic plan, developed in conjunction with residents, financial institutions, and other stakeholders in the community, outlines an EZ's or EC's vision for revitalizing its distressed areas and the activities and projects planned to accomplish this task. The act also authorized the Secretaries of HUD and Agriculture to designate the EZs and ECs in urban and rural areas, respectively; set the length of the designation at 10 years; required that nominations be made jointly by the local and state governments; and authorized the Secretaries to prescribe any regulations needed to carry out the program.

The 1993 act also amended title XX of the Social Security Act to authorize the special use of SSBG funds for the EZ/EC Program. Historically, SSBG funds could be used only for social service activities, such as programs to assist and feed children. The use of SSBG funds was expanded to (1) cover a range of economic and social development activities, including such things as constructing child care facilities, initiating job training programs, beginning 911 emergency response services, improving public facilities, and providing drug and alcohol prevention and treatment programs, or (2) be used in accordance with the strategic plan developed by the EZ or EC. As with other SSBG funds, HHS grants the funds for the EZ/EC Program to the states, which serve as fiscal intermediaries for the grants. HHS' regulations covering block grants provide states with maximum fiscal and administrative discretion. HHS encourages the states to carry out their EZ/EC funding responsibilities with as few restrictions as possible under the law. After the state grants the funds to the EZ or EC, it can draw down the funds through the designated state agency for specific projects over the 10-year life of the program.

In 1994 and 1995, HHS allocated $1 billion in SSBG funds to the 104 EZs and ECs for use over the 10-year life of the program. Each urban EZ was allocated $100 million and each rural EZ was allocated $40 million in EZ/EC SSBG funds. In addition, a new category of tax-exempt financing—using state and local bonds—was created to assist new businesses. Furthermore, businesses located in the EZ would be eligible for (1) tax credits on wages paid to employees who live in the EZ and (2) increased deductions for depreciation. Each urban and rural EC was allocated just

under $3 million of the EZ/EC SSBG funds and qualified only for the tax-exempt bonds.

Program Funding and Results

As of June 30, 1997, of the $1 billion in total SSBG funds allocated by HHS to the EZs and ECs, $119.9 million had been drawn down to fund specific projects.

According to HUD, 5 of the 6 urban EZs and 62 of the 65 urban ECs have made progress in implementing the EZ/EC Program. The communities that had reported little progress in implementing the program were warned that they were at risk of decertification, which would terminate their EZ/EC status. Some of the projects that have been funded include (1) the creation of a partnership with a local college in the Chicago EZ to prepare students for the General Educational Development tests, (2) the starting of a school-based program designed to reduce alcohol- and drug-related violence in the Detroit EZ, and (3) the buying of sites for a supermarket and retail stores in hopes of creating jobs for residents in the Philadelphia EZ.

According to Agriculture, rural communities' implementation of the EZ/EC Program has varied. All 33 rural EZs and ECs had established the basic organizational structures and procedures necessary to implement their strategic plans. In terms of implementing the specific projects contained in these plans, some communities had made considerable progress, and some had made very little. Some of the rural projects that the rural EZs/ECs plan to fund include (1) establishing family service centers in the Central Savannah River Area EC in Georgia to provide youth with recreation and leadership classes and adult literacy classes, (2) improving the downtown area in the City of Watsonville EC in California by refurbishing retail businesses' facades, and (3) building and equipping four rural fire stations within the Kentucky Highlands EZ.

Program Oversight Responsibilities

As stated above, HHS regulations provide states with maximum fiscal and administrative discretion. While fiscal responsibility for the program lies with HHS, HUD and Agriculture are assigned programmatic responsibilities for the communities within their jurisdiction. As of June 1997, both HUD and Agriculture had completed their initial reviews of their respective EZs/ECs to evaluate each area's progress toward achieving the goals that it set out in its strategic plan.

Prohibition Against Relocating Businesses

The Omnibus Budget Reconciliation Act of 1993 states that the EZ/EC area's strategic plan may not include any assistance to relocate businesses into an EZ/EC area unless (1) the establishment of a new branch, affiliate, or subsidiary will not result in a decrease in employment in the area of original location or in any other area where the existing business entity conducts business operations or (2) there is no reason to believe that the new branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where the existing business entity conducts business operations.

HUD and Agriculture have both incorporated this restriction against assisting the relocation of businesses into their implementing regulations. Like the act, HUD's and Agriculture's regulations prohibit the EZ's or EC's strategic plan from containing any provisions for providing assistance to relocate businesses if jobs are lost or expected to be lost because of the relocation.

In a November 1996 memorandum from HUD to the Atlanta EZ, HUD advised the EZ that after conferring with HHS, it was determined that the prohibition in the law does not prohibit an EZ, in the implementation stages of its plan, from using SSBG funds to finance activities that may assist a business relocating to the EZ. The memorandum went on to say that the section of the act dealing with the nonrelocation prohibition relates to a business relocation tactic included in a strategic plan submitted during the application phase of the program and that the section says nothing about actions that occur during implementation. The memorandum also stated that the language in the act relating to business retention occurs in the section dealing with designation—not in the portion authorizing the use of SSBG funds.

In our initial meeting with HUD officials to discuss this memorandum, the Deputy Director, Office of Economic Development, told us that the memorandum was prepared by his office following consultation with and guidance from HHS. In a subsequent meeting, HUD's Deputy Assistant Secretary responsible for the EZ/EC Program told us that the memorandum was being withdrawn. This official also stated that it has always been HUD's position that EZ/EC SSBG funds should not be used to relocate jobs. This official told us that HUD plans to issue guidance in the very near future that will (1) clarify HUD's position that EZ/EC SSBG funds should not be used to relocate jobs and (2) outline HUD's intent to withhold funds if EZs and ECs do not comply with the policy.

In commenting on this report, HHS disagreed with HUD's version of the role that HHS played in the development of the November 1996 memorandum to the Atlanta EZ. HHS stated that it did not provide HUD with guidance about HUD's policy of interpreting the statutory language to have an effect only during the application process. Rather, HHS stated that HUD personnel conferred with HHS staff and asked them to agree with HUD's interpretation of the statute. HHS stated that because HUD is the lead agency for the urban EZ/EC program, HHS staff deferred to HUD on this policy decision.

Job Training Partnership Act, Title III, Employment and Training Assistance for Dislocated Workers

The Job Training Partnership Act (JTPA), as amended, provides employment and training services for economically disadvantaged adults and youths, dislocated workers, and others who face significant employment barriers in an attempt to move such individuals to self-sustaining employment. Title III of the act, administered by the Department of Labor's Office of Worker Retraining and Adjustment Programs, provides states with grants to support state and local training and employment assistance and other services to eligible dislocated workers. Dislocated workers are (1) those who have lost their job because of mass layoffs or plant closings, long-term unemployed persons, and self-employed workers who have lost their job because of general economic conditions or natural disasters as well as (2) those individuals who have been laid off or notified of a layoff and who are unlikely to return to their previous occupation or industry. Title III also provides funds for federal activities and aid to specific groups of workers dislocated because of mandates in the Clean Air Act and reductions in defense spending.

State Grants

Under title III-A of the act, funds are allotted to the states in the form of grants that are to be used to directly help eligible dislocated workers return to work. Labor allots 80 percent of the title III funds provided for Employment and Training Assistance for Dislocated Workers to the states using the following distribution formula: one-third of the amount is based on the relative number of unemployed individuals who reside in each state as compared with the total number of unemployed individuals in all states; one-third is based on the relative excess number (over 4.5 percent) of unemployed individuals who reside in each state as compared with the total excess number of unemployed in all the states; and one-third is based on the relative number of individuals unemployed for 15 or more weeks and who reside in each state as compared with the total number of such individuals in all the states. In order to receive program funds, states must

submit a detailed biennial plan to the Department of Labor describing the programs and activities that will be assisted. The plan must also ensure compliance with a variety of constraints and requirements specified in the law.

The states allocate, by formula, JTPA title III funds to designated substate areas, which are determined by the state's governor. Each substate area must have a designated substate grantee to administer the program and receive funds. Examples of eligible substate grantees include private industry councils, private nonprofit organizations, local government offices, or community colleges. Each substate area is also required to submit a plan similar to the state plan for review at the state level.

States may reserve up to 40 percent of the JTPA title III funds they receive for Employment and Training Assistance for Dislocated Workers for state activities, such as state administration and technical assistance of the program, statewide projects, rapid response activities, coordination with the unemployment compensation system, and basic readjustment and retraining services. At least 50 percent of the funds received by the states must be awarded immediately to substate areas. The formula used to allocate the funds is determined by the governor of each state and should be based on data on (1) insured unemployment, (2) unemployment concentrations, (3) plant closings and mass layoffs, (4) declining industries, (5) farmer-rancher economic hardships, and (6) long-term unemployment. States may reserve an additional 10 percent of the funds but must distribute these funds on the basis of the needs of substate grantees within 9 months.

States and substate grantees can tailor the services they provide for dislocated workers to meet participants' needs. The substate grantees are to use title III grants to directly aid dislocated workers by providing basic readjustment services, retraining services, support services, needs-related payments, relocation assistance, and rapid-response assistance. Basic readjustment services include the development of individual readjustment plans for program participants, job or career counseling, job placement assistance, and labor market information. Retraining services include classroom, occupational skills, and on-the-job training; out of area job search; and basic skills and remedial education. Supportive services include child care, commuting assistance, and financial and personal counseling. Needs-related payments are funds provided for an eligible dislocated worker who is unemployed and does not qualify or has ceased to qualify for unemployment compensation and who requires such

assistance to participate in a job training program. Relocation assistance is the cost of relocating an eligible dislocated worker and family to another location when there are no job opportunities in the worker's occupation in the area of residence but where the participant has accepted a job with a reasonable expectation that it will be permanent. Rapid-response assistance includes establishing on-site contact with an employer and employee representatives within 48 hours after becoming aware of a permanent closure or substantial layoff,[20] providing financial and technical advice, and disseminating information throughout the state on the availability of services and activities carried out by the dislocated worker unit or office.

National Reserve Account

Under title III-B of the act, the remaining 20 percent of Employment and Training Assistance for Dislocated Workers funds provided under title III are retained by Labor in a National Reserve Account. These funds are used to provide assistance for territories; fund demonstration projects, multistate projects, and industrywide projects; and provide assistance for workers dislocated from their jobs as a result of natural disasters. In addition, National Reserve Account funds may be granted to states or other eligible entities to supplement formula grants provided for states when state grants are not sufficient to provide services for dislocated workers affected by mass layoffs, including those resulting from federal actions, such as defense downsizing or compliance with the Clean Air Act.

Program Funding and Results

Funding for title III programs totaled approximately $1.2 billion for program year 1995[21] ($983 million for state grants and $246 million for the National Reserve Account). Funding decreased in program year 1996 to approximately $1.09 billion ($880 million for state grants and $214 million for the National Reserve Account). In program year 1997, funding increased by about 18 percent to approximately $1.29 billion ($1.03 billion for state grants and $252 million for the National Reserve Account). Funds allotted to the states in program year 1997 ranged from a low of about $815,000 for South Dakota to a high of almost $227 million for California.

According to Labor's data, the 267,876 individuals who completed their training and left the program during program year 1995 received the

[20]Any layoff of 50 or more individuals during a 30-day period may be considered a substantial layoff.

[21]Funds for the JTPA programs are provided on a program year basis, which runs from July 1 through June 30, annually.

following services under the Employment and Training Assistance for Dislocated Workers Program during the program year:

Table I.2: Services Received Under the Employment and Training Assistance for Dislocated Workers Program

Service received	Number of recipients
Basic readjustment services (only)	125,058
Occupational training	119,138
On-the-job training	13,297
Basic skills training	27,252
Other training	1,010
Supportive services	78,466
Needs-related payments	9,494
Temporary disaster relief jobs[a]	1,238
Relocation assistance	3,416

[a]Temporary disaster relief jobs are those jobs authorized under National Reserve Account Disaster Grants to create temporary jobs for individuals who lost their jobs as a result of a natural disaster. The jobs created are primarily to clean up public properties.

Source: Department of Labor.

Prohibition Against Using JTPA Funds to Relocate Businesses

In 1992, section 141 of JTPA was amended to prohibit the use of any funds provided under JTPA to encourage or induce the relocation of a business[22] if the relocation results in the loss of employment for any employee at the company's original location. Prior to the 1992 amendments, the act stated that no funds may be used to assist in relocating establishments from one area to another unless the Secretary determines that such relocation will not increase unemployment in the area of the company's original location or in any other area. The amendments also prohibit providing any JTPA assistance to a relocating business for customized or skill training, for on-the-job training, or for a company-specific assessment of job applicants or employees, if the relocation results in a loss of employment at the original site, until 120 days after operations begin at the new location. JTPA was further amended in 1992 to require the Secretary to investigate any alleged violations of the relocation prohibitions. If the Secretary determines that a violation has occurred, the state or substate area must repay twice the amount expended in creating the violation. In addition to prohibiting the use of JTPA funds to encourage or induce businesses to relocate, section 141 of JTPA also prohibits using JTPA funds for economic development and employment-generating activities.

[22]Labor's regulations define a relocating business as one that is moving any of its operations from a facility in one labor market to a new or expanding facility in another labor market.

The conference report accompanying the 1992 amendments did not explain why the act was amended to allow a relocating business to receive JTPA assistance 120 days after operations commence at the new location. With regard to the relocation prohibition, the conference report states only that (1) the House bill amends the current law to prohibit the use of funds for the relocation of any business establishment and (2) the conference agreement requires the Secretary of Labor to investigate allegations that JTPA funds have been improperly used and to determine whether a violation occurred. According to Labor's Employment and Training Administration, the 120-day provision was added because the language in the legislation before 1992 was broad and ambiguous and that it was difficult to determine whether there was an impact on local unemployment.

Labor's Procedures for Enforcing Its Nonrelocation Requirement

The states are primarily responsible for overseeing the use of title III funds, and Labor's regulations require the states to assure that they will comply with all statutory and regulatory requirements of the act. Furthermore, the regulations require that as a prerequisite to providing JTPA assistance to a new or expanding business for worker training, the substate area and the establishment must jointly document that employment is not being relocated from another area. The substate area and the establishment do this by completing a standardized preaward review, which is developed by the state. To assist the states in carrying out their preaward reviews, Labor's regulations identify the minimum information that such reviews should cover, including the name under which the facility does business, the name and address of the facility in the other area that is being closed or from which business is being transferred, the nature of the products or the business being transferred, the date that the new or expanded facility will commence operation, and a statement from the employer about job losses at the old location. The states are not required to submit the preaward reviews to Labor, and a Labor official noted that such preaward reviews may be no more than the establishment certifying to the state that no jobs have been relocated. Furthermore, according to Labor's Employment and Training Administration, even if a business relocates and displaces workers at the original location, assistance to train workers with JTPA funds can be provided 120 days after a business begins operations at the new location.

Community Services Block Grant Program

The CSBG Program, established by the Omnibus Budget Reconciliation Act of 1981, replaced the following three programs administered by the

Community Services Administration under the Economic Opportunity Act of 1964: Community Action/Local Initiatives, Senior Opportunities and Services, and Community Food and Nutrition.

Program Information

The CSBG Program, administered by HHS' Office of Community Services (OCS), is intended to alleviate the causes of poverty by helping needy individuals obtain adequate jobs, education, and housing. Under this program, states receive grants from HHS and are required to pass through most of the funds to designated local entities, commonly known as community action agencies. The community action agencies provide services for low-income individuals and families. According to OCS officials, there are about 980 community action agencies nationwide.

In order to receive CSBG funds, states are required to submit an annual plan and application to HHS. The plan must describe the manner in which the state will ensure compliance with the CSBG Act and the proposed use and distribution of the block grant funds. The plan should also include the state's goals and objectives, information on the specific types of activities it will support, and the criteria and method used for the distribution of funds. In addition to this plan, the state's application must include a prior-year report that describes how the state met its goals and objectives and information on the types of projects supported with the prior-year CSBG funds. Furthermore, states must certify that CSBG funds will be used to (1) provide a range of services and activities having a measurable and potentially major impact on the causes of poverty; (2) provide activities designed to assist low-income participants; (3) provide supplies, services, and nutritious food on an emergency basis to counteract the conditions of malnutrition among the poor; and (4) coordinate and establish linkages between governmental and other social services programs to ensure the effective delivery of such services to low-income individuals.

States are required to pass through at least 90 percent of their block grant funds to locally based nonprofit community action agencies and may use the remaining funds to, among other things, make discretionary grants to nonprofit organizations for antipoverty projects and to cover administrative costs at the state level. Prior to providing funds for the community action agencies, states must obtain a community action plan from the agencies that includes a community needs assessment and descriptions of (1) the service delivery system, (2) how funding will be coordinated with other public and private resources, and (3) outcome measures to be used to monitor success in promoting self-sufficiency. The

community action agencies and other eligible organizations may use the funds for employment, education, housing, health, and self-sufficiency activities. For example, community action agencies may provide job counseling, child development classes, community garden projects, and alcohol and drug abuse counseling. Community action agencies can also use CSBG funds for economic development activities. But in a meeting with the Director, OCS, and other OCS officials, we were told that pressure from within the communities to provide social services would probably prevent this.

Program Funding and Results

The Secretary of HHS may reserve between 0.5 and 1 percent of the amount appropriated for the CSBG Program for training, technical assistance, planning, evaluation, and data collection activities. Such activities may be carried out through grants, contracts, or cooperative agreements with eligible entities or with organizations or associations whose membership is composed of eligible entities or agencies that administer programs for eligible entities. One-half of 1 percent of the amount appropriated is apportioned on the basis of need among Guam, American Samoa, the Virgin Islands, the Northern Mariana Islands, and the Trust Territory of the Pacific Islands. Of the remaining amount, each state (excluding the above but including the District of Columbia and the Commonwealth of Puerto Rico) is allotted an amount that bears the same ratio as the amount that the state received for fiscal year 1981 (under section 221 of the Economic Opportunity Act of 1964) bore to the total amount received by all states for fiscal year 1981 under section 221.

Funding totaled $389.6 million in fiscal years 1995 and 1996 and increased to $478.3 million in fiscal 1997. In fiscal year 1997, grants provided for the states ranged from a low of $1.9 million for Alaska to a high of $43.6 million for California.

In fiscal year 1994, the community action agencies spent approximately $357.4 million for a broad array of services.[23] The largest share of the spending—$98.4 million—was for "linkages" among the various programs and services provided in the community. Linkage involves the coordination among programs, facilities, and shared resources in the community. The next largest category of spending—$73.1 million for emergency services—includes assistance to meet immediate or urgent

[23]The Community Services Block Grant Statistical Report for fiscal year 1994 was prepared by the National Association for State Community Services Programs under a grant from HHS, as required by section 683 of the Community Services Block Grant Amendments of 1994. At the time of our review, the fiscal year 1994 report was the most recent report available.

individual or family needs, such as shelter, clothing, and medical help. Approximately $43.8 million was spent on nutrition programs, while education and employment initiatives received $35.4 million and $25.7 million, respectively. In addition, about $26 million was expended on formalized self-sufficiency programs, and about $25.4 million was spent on housing-related activities. Approximately $15.5 million was committed to health-related programs, and $14.1 million was devoted to income management programs.

No Relocation Prohibition

The laws and regulations governing the CSBG Program are silent on whether program funds may be used to relocate businesses.

Clean Water State Revolving Fund Program

EPA serves as the leader of the nation's environmental policy and is responsible for, among other things, providing state and local agencies with technical and financial assistance for antipollution activities. The Clean Water State Revolving Fund Program, administered by EPA, is a key federal program for improving water quality and protecting public health.

Program Information

The Clean Water State Revolving Fund Program, established by the Congress in 1987, provides that each state, including Puerto Rico, establish revolving funds that would serve as independent and permanent sources of financing for wastewater treatment facilities and other water quality projects in the state.[24] Under the program, EPA provides states with annual grants to help capitalize the revolving funds. The states are required to match federal capitalization grants at a rate of at least $1 for every $5 in federal funds received by the state. All 50 states and Puerto Rico have established state revolving funds. The Clean Water State Revolving Fund Program replaced EPA's Construction Grants Program, which provided nonrepayable grants primarily for wastewater treatment facility construction.

The Clean Water Act provides that states can use their revolving funds for three activities: to finance the construction of publicly owned wastewater treatment facilities; to implement programs to control nonpoint sources of water pollution, such as agricultural, rural, and urban runoff; and to develop and implement plans to conserve and manage estuaries. State,

[24]The District of Columbia, Virgin Islands, and other territories are not required to establish revolving funds, and EPA makes grants directly to these areas for the construction of wastewater treatment facilities. EPA also earmarks funds for grants to Indian tribes and Alaska Native Villages for the construction of wastewater treatment facilities.

municipal, intermunicipal, and interstate agencies are eligible to receive assistance from state revolving funds. Individuals are also eligible to receive assistance to carry out activities to control nonpoint sources of water pollution and to conserve and manage estuaries. States can use their revolving funds to make loans and to provide other types of assistance, such as refinancing local debt obligations to lower the cost of borrowing for communities. State revolving funds cannot be used to provide grants. According to EPA's Director, State Revolving Fund Branch, wastewater treatment facilities account for about 95 percent of the dollars in assistance provided by state revolving funds.

The Clean Water Act requires that wastewater treatment projects funded by a state revolving fund must be on the state-prepared project priority list. The priority list identifies and ranks those treatment facilities that the state expects to fund. The act also requires that activities that a state intends to fund to control nonpoint sources of water pollution and to protect estuaries must be identified in the state's annual plan identifying the state's intended use of the fund.

According to the Director, EPA State Revolving Fund Branch, states must base their decisions on which project to include on their priority lists on public health and water quality factors, and the economic development of an area should not be a factor in a state's decision of whether to place a project on its priority list. This official told us that the economic development of an area can be taken into consideration when designing the treatment project but that there are controls to ensure that a project's design allows only for reasonable growth.

Nevertheless, EPA recognizes that while wastewater treatment projects are not funded solely to foster economic growth, the economic development of an area often occurs as an offshoot of such projects. In its report on the progress of the Clean Water State Revolving Fund Program issued in January 1995, EPA noted how investments in environmental infrastructure in the 1970s and 1980s to clean up the waterfronts in Cleveland, Pittsburgh, Seattle, and a number of other areas across the country lead to a revitalization of many of the major urban areas.

Funding for State Revolving Funds

EPA annually allots funds appropriated by the Congress for capitalization grants to the states, including Puerto Rico, generally according to

percentages specified in the Clean Water Act.[25] Each state has until the end of the fiscal year after the fiscal year in which the grant funds are appropriated to obligate its grant. Grants that are not obligated by the end of the second fiscal year are to be reallotted by EPA among those states that have obligated all of their grant funds within the first fiscal year.

The Congress began appropriating funds for capitalization grants in fiscal year 1989. EPA's data show that as of the end of May 1997, cumulative capitalization grants awarded to the 50 states and Puerto Rico for their revolving funds totaled about $13.6 billion.[26] About $1.7 billion of this amount represents fiscal year 1996 capitalization grants. EPA anticipates that capitalization of the state revolving funds will continue until 2004. According to EPA's Acting Director, State Revolving Fund Branch, data from EPA's State Revolving Fund Management Information System show that as of June 30, 1996, facilities for the secondary treatment of wastewater accounted for about 50 percent of the total projects funded by state revolving funds. Other projects funded by the funds included combined sewer overflow projects, facilities to handle and treat sludge at water treatment plants, and projects to protect or restore streams, wetlands, and estuaries.

No Relocation Prohibition

While title VI of the Clean Water Act, which authorizes the Clean Water State Revolving Fund Program, and EPA's regulation governing the program place several restrictions on the use of state revolving funds, they are silent regarding the use of program funds for relocating businesses. For example, the regulations allow state revolving funds to provide assistance only for the publicly owned portion of treatment works, and a revolving fund may not provide loans for the nonfederal share of the cost of treatment projects that the recipient is receiving from EPA under other authority.

Water and Waste Disposal Program

Agriculture's Water and Waste Disposal Program provides loans and grants to rural communities for funding water and waste disposal facilities that will improve the quality of life and promote the economic development of rural areas.

[25]The 1987 amendments specified percentages for the 50 states, the District of Columbia, and other jurisdictions. As some of these other jurisdictions gained independence since 1987, they lost their entitlement to funds, and their share of funds are allocated among the states and other jurisdictions that remain eligible for funds.

[26]About $1 billion of these awards included grant funds available to the states from EPA's former Construction Grants Program.

Program Information

To be eligible for the Water and Waste Disposal Program, a rural community must have a population of 10,000 people or fewer. Financial assistance is provided in the form of direct loans and/or grants from Agriculture or loans from commercial sources, a portion of which Agriculture guarantees against loss. Applicants must be unable to obtain financing from other sources at reasonable rates and terms. Grants are primarily provided for reducing the water and waste disposal costs to a reasonable level for users of the system. Entities eligible for Water and Waste Disposal loans and grants are municipalities, counties, Indian tribes, special purpose districts, and nonprofit corporations.

Water and Waste Disposal loans and grants may be used to construct, repair, improve, expand, or modify rural water, sanitary sewage, solid waste disposal, and storm wastewater disposal systems. Facilities that may be funded include reservoirs, pipelines, wells, pumping stations, sewer systems, storm sewer systems, and solid waste disposal equipment, including garbage trucks, sanitary landfills, and incinerators. Funds can also be used to acquire land and water rights; to pay legal, engineering, and other fees associated with developing facilities; and to provide training and technical assistance for, among other things, identifying and evaluating solutions to water and waste disposal problems.

Agriculture allocates grant and loan funds to its state offices by a formula that measures each state's (1) percentage of the national rural population (50 percent), (2) percentage of the national rural population with incomes below the poverty line (25 percent), and (3) percentage of national nonmetropolitan unemployment (25 percent). No one state may receive more than 5 percent of the total funds available. The state offices then make the funds available to their district offices to support rural water and sewer projects proposed by local communities. All 50 states, Puerto Rico, the U.S. Virgin Islands, and the Western Pacific territories are authorized to receive funds. Before allocating the funds to the state offices, Agriculture sets aside about 10 percent of both loan and grant funds as a reserve for emergencies, cost overruns, and other unforeseen problems.

The type of assistance that Agriculture provides for the community—either a loan or a combination of a loan and grant—depends on each community's financial situation. According to Agriculture's program regulations, grant funds are to be provided for projects serving financially needy communities to reduce user charges to a reasonable level. Agriculture headquarters officials consider a "reasonable" user charge to be one that the community can afford. Agriculture's state and

district offices determine affordability on the basis of the (1) community's median household income or (2) user charges for similar systems in the area. Agriculture has the discretion to decide which approach will be used to determine the amount of grant funds provided. Communities may also supplement Agriculture's water and sewer funds with their own funds and funds from other federal, state, or private sources.

Prohibition Against Relocating Businesses

While the laws and regulations governing the program place several restrictions on the use of the program funds, they do not address the use of funds for relocating businesses. For example, funds may not be used for building facilities that are not modest in design or cost, new combined storm and sanitary sewer facilities, or part of the project costs normally provided by a business or industrial user.

Program Funding and Results

Over the last 5 years, funding for Agriculture's Water and Waste Disposal Program has averaged about $1 billion per year. In fiscal year 1996, Agriculture provided about $963 million in Water and Waste Disposal direct loans and grants. Of that amount, 617 direct loans worth about $389 million and 435 grants worth about $198 million were provided for rural water projects. Agriculture also provided 278 direct loans worth about $214 million and 233 grants worth about $162 million for rural waste disposal projects. Agriculture also guaranteed about $59 million in loans during fiscal year 1996.

Surface Transportation Program

The Surface Transportation Program (STP) is a grant program created by the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) to develop and improve the nation's surface transportation facilities.

Program Information

Administered by the Department of Transportation's Federal Highway Administration, STP provides grants that states and localities can use to finance a variety of transportation-related projects. Except as noted below, STP funds cannot be used on roads classified as local roads and rural minor collectors.[27] STP funds may be used for (1) construction, reconstruction, rehabilitation, resurfacing, restoration, and operational improvements of highways and bridges (including bridges on any public

[27]The Department of Transportation uses a functional classification system to classify roads. Under this system, rural minor collectors generally serve travel of primarily intracounty rather than statewide importance. These routes collect traffic from local roads and provide service for small communities.

road); (2) capital costs for transit projects eligible for assistance under the Federal Transit Act and publicly owned intracity or intercity bus terminals and facilities; (3) carpool projects, fringe and corridor parking facilities and programs, and bicycle transportation and pedestrian walkways on any public roads; (4) highway and transit safety improvements and programs, hazard eliminations, projects to mitigate hazards caused by wildlife, and railway-highway grade crossings on any public roads; (5) highway and transit research and development and technology transfer programs; (6) capital and operating costs for traffic monitoring, management, and control facilities and programs; (7) surface transportation-planning programs; (8) transportation enhancement activities; (9) transportation control measures; (10) the development and establishment of management systems; and (11) wetland mitigation efforts. For STP projects, the normal federal share is 80 percent. When STP funds are used for interstate projects, the federal share may be 90 percent. The federal share may be increased to 95 percent in states with large areas of public lands and up to 100 percent for certain safety, traffic control, and carpool/vanpool projects.

ISTEA established a requirement for a statewide planning process that takes into consideration all modes of transportation. The transportation-planning process must be carried out in cooperation with metropolitan planning organizations (MPOs),[28] Indian tribal governments, transit operators, federal lands agencies, and environmental, resource, and permit agencies. The states are required to generate a long-range transportation plan that has a 20-year horizon and is based on realistic projections of available resources. The plan must consider all modes of surface transportation, and it must take into account a very wide range of environmental impact, recreation, and other factors. In addition to the long-range plan, the states are required to develop a statewide transportation improvement program (STIP) that includes all transportation projects that will receive federal transportation funding. The STIP must be consistent with the long-range plan and expected funding. Like the states, MPOs develop a long-range plan and a transportation improvement program (TIP) for each metropolitan area. Among other things, the long-range plan must include a financial plan and identify transportation facilities that function as an integrated transportation system. The TIP is developed in cooperation with the state and transit operators and must include all transportation projects to be funded. The TIP must be updated and approved at least every 2 years by the MPO and the state's governor and have a reasonable opportunity for public comment prior to approval.

[28]A metropolitan planning organization is required for each urbanized area with a population of over 50,000.

Furthermore, the TIP must include a priority list and a financial plan that demonstrates how it can be implemented.

Under ISTEA and the new project selection system, the STP gives localities, especially larger communities, an unprecedented level of control to select the surface transportation solutions that best fit their needs and preferences. Transportation projects are selected by the MPO in consultation with the state in areas with populations of greater than 200,000; by the state, in cooperation with the MPO, in areas with populations of between 50,000 and 200,000; and by the state, in cooperation with affected local officials, in areas with populations of less than 50,000.

Program Funding and Results

Transportation apportions STP funds to the states on the basis of historical federal highway funding that indirectly includes factors such as each state's postal route mileage, land area, and urban and rural population. Each state must reserve 10 percent of the funds apportioned to it for safety construction activities (such as hazard elimination and rail-highway grade crossings) and 10 percent for transportation enhancements (such as the preservation of abandoned transportation corridors and the control and removal of outdoor advertising). Of the remaining funds, the state must distribute 62.5 percent between urbanized areas that have populations exceeding 200,000 and the remaining areas of the states in proportion to their relative share of the state's population. States retain discretion over 37.5 percent of the remaining funds, which can be used in any area of the state.

In fiscal year 1996, STP funds were obligated[29] in the following manner: $416.6 million for safety construction activities, $426.9 million for transportation enhancements, $1 billion for urbanized areas with populations exceeding 200,000, $569.4 million for areas with populations of less than 200,000, $544.8 million for nonurban areas, and $2.8 billion for state discretionary projects in any area of the state.

STP funds apportioned to the states by Transportation totaled approximately $3.9 billion for fiscal year 1995, $3.4 billion for fiscal 1996, and $3.9 billion for fiscal 1997. Individual state apportionments in fiscal

[29]An obligation refers to Transportation's commitment to pay, through reimbursement to the states, the federal share of a project's eligible costs. Funds obligated in fiscal year 1996 exceed the amount of funds apportioned in that year because federal-aid highway funds are available for use (available for obligation) for more than 1 year.

year 1997 varied from a low of approximately $12.6 million for Massachusetts to a high of over $317 million for California.

No Relocation Prohibition

The laws and regulations governing the STP are silent on whether program funds may be used to relocate businesses.

Comments From the Department of Commerce

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

THE SECRETARY OF COMMERCE
Washington, D.C. 20230
JUL 28 1997

Ms. Judy A. England-Joseph
Director, Housing and Community
Development Issues
U. S. General Accounting Office
Washington, D.C. 20548

Dear Ms. England-Joseph:

Thank you for your letter requesting the Department's comments on the draft General Accounting Office report entitled "Economic Development Activities - Overview of Eight Federal Programs."

See comment 1.

We have reviewed the report and we agree with the general observations. We are providing you, however, requested editing changes to correct the descriptions and implications of certain observations. These changes are listed on the enclosure.

See comment 2.

We note that the Economic Development Administration (EDA) is aware of no citations or complaints regarding its Public Works Program that infer its use in state incentive packages.

See comment 3.

In addition, please be advised of additional activity by EDA in this area. In a May 12, 1997, Federal Register Notice, EDA requested proposals under its Research and Evaluation Program for the development of a tool to evaluate state incentive programs. The Request for Proposals also requested recommendations on the appropriate role of the Federal Government with regard to locational incentives. The final report on this research project should be completed by June 1998.

We appreciate your interest in the Department and its programs.

Sincerely,

William M. Daley

Enclosure

The following are GAO's comments on the Department of Commerce's letter dated July 28, 1997.

GAO's Comments

1. We reviewed the suggested editing changes and incorporated them into the report where appropriate.

2. It was not our intent to infer that any particular federal program has been used to lure jobs from one location to another. We deleted a statement from our draft report regarding the citing of federal programs used in incentive packages because of the concern and confusion it has caused.

3. At the end of our report, we note that Commerce has requested proposals for a research project that will (1) develop a tool to evaluate state incentive programs and (2) make recommendations on the appropriate federal role with regard to locational incentives. We also note that Commerce expects the final report for the project to be completed by June 1998.

Comments From the Department of Health and Human Services

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

JUL 29 1997

Ms. Judy England-Joseph
Director, Housing and Community
Development Issues
United States General
Accounting Office
Washington, D.C. 20548

Dear Ms. England-Joseph:

Enclosed are the Department's comments on your draft report, "Economic Development Activities: Overview of Eight Federal Programs." The comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely,

Michael Mangano

for June Gibbs Brown
Inspector General

Enclosure

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for General Accounting Office reports. The OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

Comments of the Department of Health and Human Services on the United States General Accounting Office (GAO) draft report, "Economic Development Activities: Overview of Eight Federal Programs"

We appreciate the opportunity to provide comments on GAO's proposed report.

Overall, we find this report well done and informative. It should provide useful information to Congress and to the agencies who are charged with the administration of economic development programs. We do have one specific comment relative to the Empowerment Zone/Enterprise Community (EZ/EC) program.

Now on p. 16.

See comment 1.

The first complete paragraph on page 26 states, "In a November 1996 memorandum from HUD to the Atlanta EZ, HUD advised the EZ that **after conferring with HHS**, it was determined that the prohibition in the law does not prohibit an EZ, during the implementation stages of its plan, from using SSBG funds to finance activities that may assist a business relocating to the EZ."

This paragraph implies that the Department provided guidance to the Department of Housing and Urban Development (HUD) about HUD's policy of interpreting the statutory language to have effect only during the application process. This is not a correct explanation of the Department's involvement with the HUD program office on this matter. HUD personnel conferred with Department staff and asked them to agree to HUD's interpretation of the authorizing statute. Given that HUD is the lead agency for the urban EZ/EC program, Department staff deferred to HUD on this policy decision.

Therefore, in order to avoid confusion about the Department's role in contributing to this HUD decision, we request that the statement, "after conferring with HHS," be deleted.

The following are GAO's comments on the Department of Health and Human Services' letter dated July 29, 1997.

GAO's Comments

1. At the end of the report, we discuss HHS' position regarding a policy interpretation that HUD gave to the Atlanta EZ in a November 1996 memorandum. Because it is unclear as to the exact role that each agency played in developing the policy, we revised the report to include HHS' position in the report sections that discuss the memorandum; we did not delete the phrase "after conferring with HHS" because it is contained in the memorandum.

Comments From the Department of Housing and Urban Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-7000

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

JUL 25 1997

Judy England-Joseph
Director, Housing and Community
Development Issues
Resources, Community and Economic
Development Division
U.S. General Accounting Office
Washington D.C. 20548

Dear Ms. England-Joseph:

Thank you for the opportunity to review the General Accounting Office (GAO) Draft Report, Economic Development Activities: Overview of Eight Federal Programs (GAO/RCED-97-193). Two of the eight programs that were reviewed fall under the jurisdiction of the Department of Housing and Urban Development (HUD): the Community Development Block Grant (CDBG) program; and the Empowerment Zone/Enterprise Community (EZ/EC) program. Our specific comments on the section devoted to the CDBG program are provided in Enclosure 1. In addition, during a recent meeting between GAO and HUD staff, Deputy Assistant Secretary Julian Potter indicated that the Department would soon issue guidelines that would clarify HUD's position on the use of Social Services Block Grant funds for the relocation of jobs. A copy of the draft guidelines are provided for your information in Enclosure 2.

See comment 1.

See comment 2.

Again, thank you for the opportunity to comment on this Draft Report. Please contact Laura Marin, CPD Audit Liaison, at (202) 708-2182 if you have any questions on the material provided.

Sincerely,

Jacquie Lawing
Acting Assistant Secretary

Enclosures

The following are GAO's comments on the Department of Housing and Urban Development's letter dated July 25, 1997.

GAO's Comments

1. In its enclosure, HUD provided suggested clarification regarding the definition of communities that are eligible to receive CDBG entitlement funds, which we incorporated into the report where appropriate. We also deleted a statement from the draft report regarding the citing of federal programs used in incentive packages because of the concern and confusion it caused. It was not our intent to infer that any particular federal program has been used to lure jobs from one location to another.

2. At the end of our report, we discuss HUD's intention to issue guidelines clarifying its position on the use of SSBG funds for the relocation of jobs. We also note that a draft of the guidelines was included as an attachment to HUD's comments.

Comments From the Department of Labor

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210

JUL 21 1997

Ms. Judy England-Joseph
Director, Housing and Community
Development Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Ms. Joseph:

This is in response to your request to Secretary Herman enclosing copies of your draft report entitled Economic Development Activities: Overview of Eight Federal Programs (GAO/RCED-97-193). We appreciate the opportunity to provide comments on the sections of the proposed report addressing the Job Training Partnership Act (JTPA) prohibition against providing training services for workers to be employed at companies that have relocated or expanded operations in one location and have left workers unemployed at another location (Sec. 141(c)).

See comment 1.

Specifically, a portion of the proposed GAO report deals with Title III of JTPA and services which are available in that program for eligible dislocated workers in order for them to return to the workforce as quickly as possible. However, we would point out that Sec. 141 deals with all training programs under JTPA, including those parts dealing with disadvantaged youth and adults, migrant and seasonal farm workers, Native American programs, and Older Americans. In addition, we would reiterate that JTPA also prohibits the use of such funds for economic development and employment generating activities (Sec. 141(q)), although as you point out in your report the availability of job training in a community for a workforce (either federally- or state-funded) may be viewed as an "incentive" to employers who are considering relocation.

See comment 2.

See comment 3.

We have provided some additional comments in an enclosure to this letter. Also, we have made some specific comments in the margins of the draft report which may be useful to you. We would be happy to discuss any of the issues with you at your convenience. Mr. Jaime Salgado on 219-5731 (Ext. 111) can make any necessary arrangements. Again, we thank you for the opportunity to provide these comments.

Sincerely,

Raymond J. Uhalde

Raymond J. Uhalde
Acting Assistant Secretary

Enclosures

The following are GAO's comments on the Department of Labor's letter dated July 21, 1997.

GAO's Comments

1. At the end of our report, we discuss Labor's observation that while our report deals with title III of JTPA and the services that are available to eligible dislocated workers, section 141 of JTPA deals with all training programs under the act, including those involving disadvantaged youths and adults, migrant and seasonal farm workers, Native Americans, and older Americans. We agree and make this point in the report. The sections of our report that discuss the relocation prohibition under section 141 of JTPA state specifically that this prohibition applies to all funds provided under JTPA.

2. At the end of our report, we also discuss Labor's comment that, in addition to the relocation prohibition, there is a prohibition against using JTPA funds for economic development or employment-generating activities and that it is important to put this into the context of the training services that are available to help dislocated workers to return to the workforce. We agree with Labor and have added language to our final report to reflect these prohibitions.

3. In an attachment and in margin notes on a draft of our report, Labor provided additional comments. This included updated statistics on the number of individuals provided with training services under title III during program year 1995, which we included in our final report. Labor also made specific technical suggestions and observations to improve the clarity and accuracy of information in the report regarding (1) individuals who qualify as eligible dislocated workers under title III, (2) the two funding and service schemes for eligible dislocated workers under title III, (3) preaward reviews conducted by substate grantees and businesses to ensure compliance with the nonrelocation requirement, and (4) the responsibility of state and substate agencies for monitoring and ensuring compliance with the JTPA relocation prohibition. We have incorporated these changes in our final report where appropriate.

Labor also suggested that the section of the report that discusses the different types of incentives and the role they may play in business relocation mentions that JTPA funds cannot be commingled with other federal or state funds and that JTPA includes a "maintenance of effort" requirement that JTPA funds be used only for activities that are in addition to those that would otherwise be available in the absence of such funds.

We did not include Labor's suggested language because this section of our report does not discuss any of the eight programs but is an overview discussion of incentives and their general role in business relocation.

Major Contributors to This Report

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