



United States Government Accountability Office
Washington, DC 20548

September 14, 2012

The Honorable Richard Durbin
Chairman
The Honorable Jerry Moran
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States Senate

The Honorable Jo Ann Emerson
Chairwoman
The Honorable José E. Serrano
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
House of Representatives

The Honorable Emanuel Cleaver, II
Chairman
Congressional Black Caucus
House of Representatives

Subject: *The Distribution of Federal Economic Development Grants to Communities with High Rates of Poverty and Unemployment*

For decades the nation has faced the challenge of revitalizing its most economically distressed communities, which suffer from high levels of poverty and joblessness. To help poor communities, Congress appropriated \$6.2 billion in fiscal year 2010 for community and economic development programs, largely in the form of grants, loan guarantees, and direct loans. In a 2011 report, we identified 80 programs that make funding available to communities to enhance local economic activity.¹ These activities include, but are not limited to, planning and developing strategies for job creation and retention, developing new markets for existing products, building infrastructure to attract industry to undeveloped areas, rehabilitating dilapidated housing, and establishing business incubators to provide facilities for new businesses' operations, among others. But the extent to which federal economic development grant support is aligned with local economic conditions is less clear.

¹GAO, *Economic Development Programs: Efficiency and Effectiveness of Fragmented Economic Development Programs Are Unclear*, [GAO-11-477R](#) (Washington, D.C.: May 19, 2011). See enclosure IV for a list of related GAO reports.

To assist you in your fiscal year 2013 budget deliberations you asked us to provide data that show the extent to which federal economic development grant funding is awarded to the poorest communities. In consultation with your offices, we agreed to provide data that show the distribution of community and economic development grant funds to cities and rural counties with high rates of poverty and unemployment. This letter transmits information we provided to your staff on May 5, July 23, and July 27, 2012. (See enclosure I for the presentation slides.) Specifically, these slides describe the distribution of federal community and economic development grant funding for (1) cities with high rates of poverty and unemployment and how that compares with the distribution of economic development funding to cities in general and (2) nonmetropolitan counties with high rates of poverty and unemployment and how that compares to the distribution to counties in general.

The federal government supports community and economic development through grants, loans, and tax expenditures. In addition to the \$6.2 billion in grants and loans, the federal government invested an even larger amount—\$8.7 billion—in community and economic development through tax expenditures in fiscal year 2010.² However, given your primary interest in the distribution of federal grant funds to economically distressed communities, we focused our work specifically on a selection of high dollar value community and economic development grant programs that made funding available to cities and nonmetropolitan counties. Four agencies administered these programs—the Departments of Commerce (Commerce), Housing and Urban Development (HUD), and Agriculture (USDA), and the Small Business Administration (SBA). (See enclosure II for a list of the selected economic development grant programs.)

Our analysis included grant programs that use both competitive and formula award procedures to channel funds to communities with high rates of poverty or to programs that serve low and moderate income households. For example, USDA's Rural Business Opportunity grants program awards funds through a competitive process that gives priority to projects that will provide services to economically distressed communities. By contrast, HUD allocates Community Development Block Grant Program (CDBG) funds to communities by using a formula which employs several variables—poverty, population, pre-1940 housing, slow population growth and overcrowding.³ Although poverty is one factor in targeting funds to economically distressed communities, the CDBG program, which has the most impact on our findings, is designed to target multiple dimensions of community need.

To determine the distribution of federal economic development grant funding for cities and rural counties with various rates of poverty and unemployment, we combined information from a number of sources including our previous work on community and economic

²Tax expenditures are preferential provisions in the tax code, such as exemptions and exclusions from taxation, deductions, credits, deferral of tax liability, and preferential tax rates that result in forgone revenue for the federal government. The revenue that the government forgoes is viewed by many analysts as spending channeled through the tax system. See GAO, *Limited Information on the Use and Effectiveness of Tax Expenditures Could Be Mitigated through Congressional Attention*. [GAO-12-262](#) (Washington, D.C.: Feb. 29, 2012).

³Our analyses include \$2.8 billion in CDBG/Entitlement Communities grants and \$1.2 billion in CDBG/States Program grants. Recipients of both programs may undertake a wide range of activities including economic development, and improvements to community services and facilities.

development programs,⁴ agency-reported fiscal year 2010 obligation data, and economic indicator data from the U.S. Bureau of the Census' (Census) American Community Survey. Given your interest in both urban and rural communities, we examined approximately 465 cities with populations exceeding 65,000 and 2,048 nonmetro counties.⁵

To determine the amount of grant funding awarded to cities, we selected high-dollar grant programs that made federal economic development grant funds available to cities, totaling \$2.3 billion in fiscal year 2010 obligations. To determine the amount of grant funding awarded to nonmetro counties, we selected grant programs that made funding available to rural locations, which totaled roughly \$1.5 billion in fiscal year 2010 economic development grant obligations.⁶

To identify grant recipients in cities and related obligation amounts, we used fiscal year 2010 data from USAspending.gov (accessed Aug. 22, 2012), a publicly searchable database on government spending. To identify obligation amounts and grant recipients in nonmetro counties, we used the USDA Economic Research Service's Federal Funds data set. We assessed the reliability of these data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined the data were sufficiently reliable for the purposes of this report. We interviewed agency officials from Commerce, HUD, SBA, and USDA about their data reliability procedures and obtained obligation data to verify the obligation totals. To approximate economic need in a given city or nonmetro county, we used poverty rates and unemployment rates from Census' 2010 American Community Survey and compared the distribution of economic development grant funding for cities and nonmetro counties with different rates of poverty and unemployment.

Finally, to focus our analysis on populations experiencing economic hardships, we examined grant obligations relative to the number of persons in poverty and to unemployed persons in the geographic areas in our analyses. While there are other valid ways to measure the distribution of grant obligations, such as comparing obligations across geographies on a per capita basis, we chose to compare funding amounts relative to poverty populations and unemployed populations because of your interest in how communities with high rates of poverty and unemployment fare with respect to federal

⁴GAO-11-477R and GAO, *Economic Development: Multiple Federal Programs Fund Similar Economic Development Activities*, [GAO/RCED/GGD-00-220](http://GAO.RCED/GGD-00-220) (Washington, D.C.: Sept. 29, 2000).

⁵The \$2.3 billion amount represents economic development grant obligations for cities with populations over 65,000 and with both poverty and unemployment data available in the U.S. Census' American Community Survey 2010 1-year estimates. The \$1.5 billion amount represents economic development grant obligations for nonmetro counties with poverty and unemployment data available in the American Community Survey 5-year estimates.

⁶Nonmetro counties are all areas outside metro counties. In this analysis, we use "rural" and "nonmetro" interchangeably to refer to people and places outside of metro areas. Metro counties, as defined by the Office of Management and Budget, include central counties containing one or more urbanized areas (i.e., areas with an urban center with a population of 50,000 or more); outlying counties are included if economically tied to the core counties as measured by work commuting.

funding for community and economic development. In addition, many of the grant programs we examined are designed to aid populations in need. For this reason we compare funding across jurisdictions not on a per capita basis but on specific targeted populations with the greatest need to show the relationship of the federal grant funding to such populations. Although we singled out these populations for this analysis, it is important to note that the benefits of economic development grant funding may accrue to the wider population.

We conducted our work from August 2011 to September 2012 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

Summary

The distribution of grant funding per person in poverty in cities was not consistently aligned with overall poverty rates. Most cities, with the exception of those cities with the highest poverty rates, received roughly the same amount of economic development funding per person living in poverty. Further, when we examined how grant funds are distributed to cities based on their unemployment rates, we also found that some cities with higher unemployment rates received less funding per unemployed person than other cities with lower unemployment rates. However, we did find that a small number of cities (17 out of a total of 465 cities) with the highest unemployment rates received funding that was roughly 40 percent higher than the average for unemployed populations in all cities.

Similarly, the distribution of grant funding per person in poverty to nonmetro counties was not consistently aligned with overall poverty rates. Nonmetro counties with the lowest poverty rates received more grant funding per person in poverty than counties with higher poverty rates. Further, when we examined how grant funds were aligned with unemployment rates in nonmetro counties, we found that counties with relatively low unemployment rates (under 5 percent) received more funding per unemployed person than counties with higher unemployment rates. Only those nonmetro counties with the highest unemployment rates (over 20 percent) received higher funding per unemployed person.

When we compared the distribution of economic development funds awarded to nonmetro counties with funding awarded to metro counties, we found that while metro counties received more grant funds in total, nonmetro counties received a higher portion of grant funding relative to the percentage of their population in poverty. Specifically, 20 percent of the poverty population in this study lived in nonmetro counties, yet those counties received 29 percent of the total economic development grant funds. Thus, members of the poverty population in nonmetro counties received more grant funding per capita than their counterparts in metro counties.

Finally, we identified a number of issues related to the characteristics of grant programs and the availability of data that limit what we can say about the geographic distribution and beneficiaries of the grant awards. First, the geographic information for the grant programs we reviewed in USAspending.gov (accessed Aug. 22, 2012) corresponds to the address of the primary grant recipient, which in some cases is not necessarily the location where the services funded by the grant are delivered. For example, Commerce provides grants to economic development organizations that may serve multiple cities. Therefore, the geographic information might understate the true reach of the federal funds. But in some cases, such as with the CDBG/Entitlement Communities program, the address of the primary recipient is also where the grant funds are spent on economic development activities because the funds are specifically awarded to support economic activities in that community. In addition, the data we analyzed do not allow us to identify who benefits from the economic activity supported by the grant. For example, we cannot tell who might have received a job from a newly established business that received an economic development grant designed to incubate new businesses in economically distressed communities. Finally, because this analysis did not examine the outcomes of these federal investments we are limited in what we can say about whether and how these grant programs improved local economic conditions.

Agency Comments and Our Evaluation

We provided a draft of this correspondence to Commerce, HUD, USDA and SBA for review and comment. Commerce and HUD provided written comments, which are presented in enclosure III and IV, respectively. While both agencies generally agreed with our findings, Commerce provided additional information on some of the data we used, and HUD requested that we provide additional clarification on our methodology and results for analyzing the distribution of economic development grant funds to communities. USDA and SBA provided technical comments, which we have incorporated where appropriate.

Commerce noted that the fiscal year obligation amounts which we included in the draft's enclosure II differed from the actual fiscal year 2010 obligation amounts that Commerce has for some programs. We agree that the numbers we had included in enclosure II may differ from Commerce's actual 2010 obligation amounts. This difference is due to the fact that we obtained obligation data as of August 2011. While these were the most recent data that provide federal grant obligations by county, agencies can later adjust the obligation amounts. Although many of the differences are generally quite small, we have removed the unadjusted award data from the table in enclosure II to prevent confusion with data that have been more recently adjusted.⁷

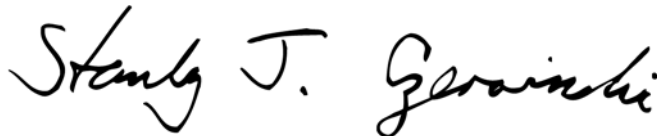
HUD commented that we should provide more information on the method of allocation for each program so that readers understand variables that influence the allocation of funds to economically distressed communities. Although we provide information about the methods programs used to allocate funds to economically distressed communities, we agree that additional information, particularly in regards to the CDBG program which has a major

⁷Appropriation data for these programs, which gives an indication of relative size of each program, is provided in [GAO-11-477R](#), 43-50.

impact on our analysis, could be beneficial. Accordingly, we have provided additional detail about the CDBG program to clarify that poverty is one of several variables used to target CDBG funds to economically distressed communities. HUD also noted that, because our analysis focused on specific populations within communities rather than on the entire community population, it was misleading to conclude that the distribution of grant funding to communities was not consistently aligned with poverty and unemployment rates. We agree and have clarified our language and added more detailed information to make it clearer that, given congressional interest in the distribution of federal funds to populations experiencing the greatest need, our findings reflect a per capita comparison based on the populations in poverty and the unemployed as opposed to an overall per capita basis.

We are sending copies of this report to the appropriate congressional committees and the Secretaries of Commerce, HUD and USDA, and the Administrator of SBA. In addition, the report is available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff has questions regarding this report, please contact me at (202) 512-6806 or czzerwinski@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Individuals making key contributions to this report include Laurel E. Beedon, Amy R. Bowser, Kathleen M. Drennan, Gregory O. Dybalski, Luann M. Moy, Keith C. O'Brien, Carol L. Patey, Rebecca K. Rose, Tind S. Ryen, Albert C. Sim and Michael Springer.



Stanley J. Czerwinski
Director
Strategic Issues

Enclosures—5



Federal Economic Development Grants to Communities with High Rates of Poverty and Unemployment

**Results of GAO's Review of Selected
Economic Development Grant Programs:
City and Nonmetropolitan County Analysis**

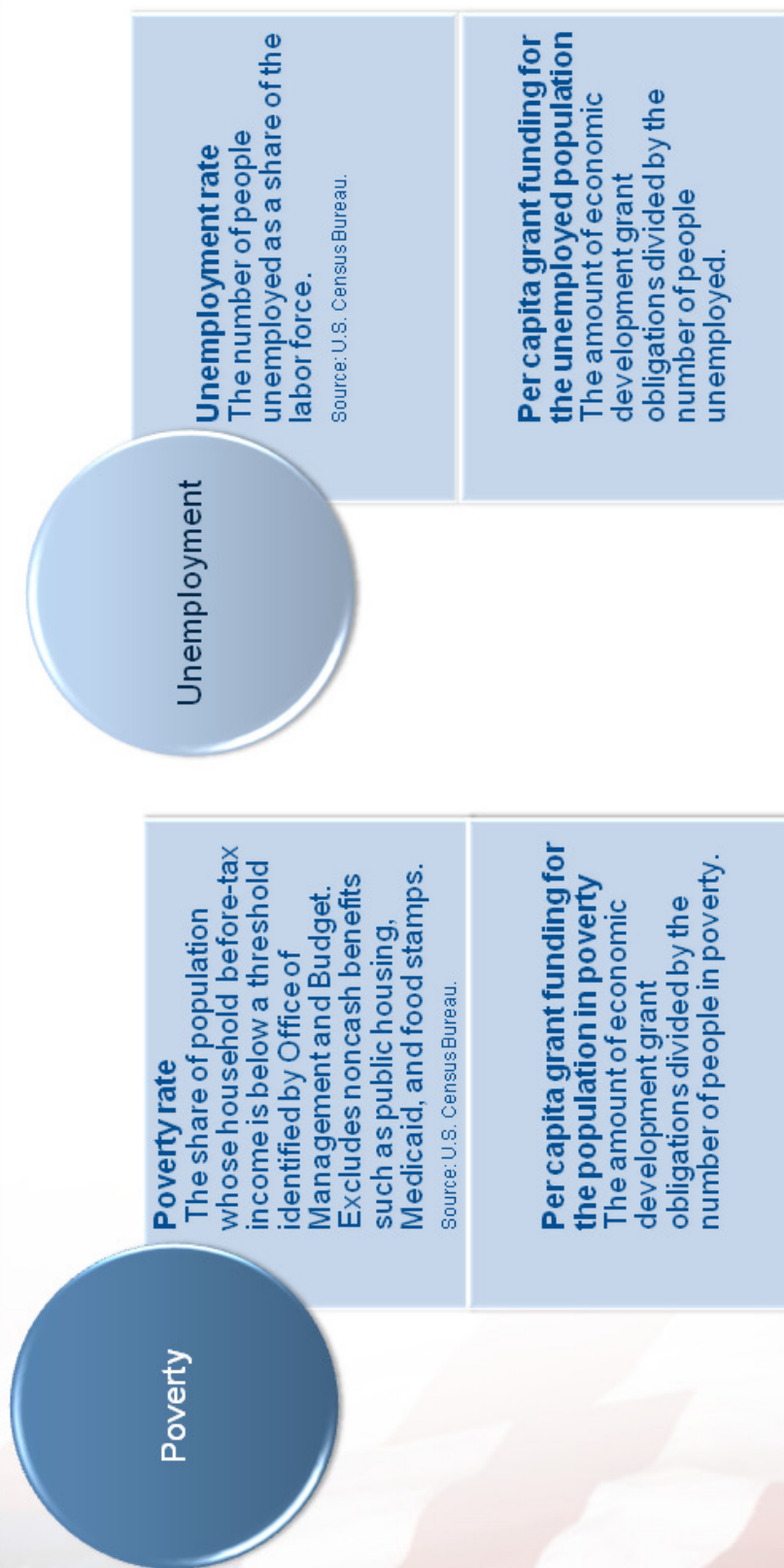
Key Question

- What is the distribution of federal economic development grant funding for:
 1. cities with high rates of poverty and unemployment and how does that compare with the distribution to cities in general and
 2. nonmetropolitan (nonmetro) counties with high rates of poverty and unemployment and how does that compare with the distribution to counties in general?¹

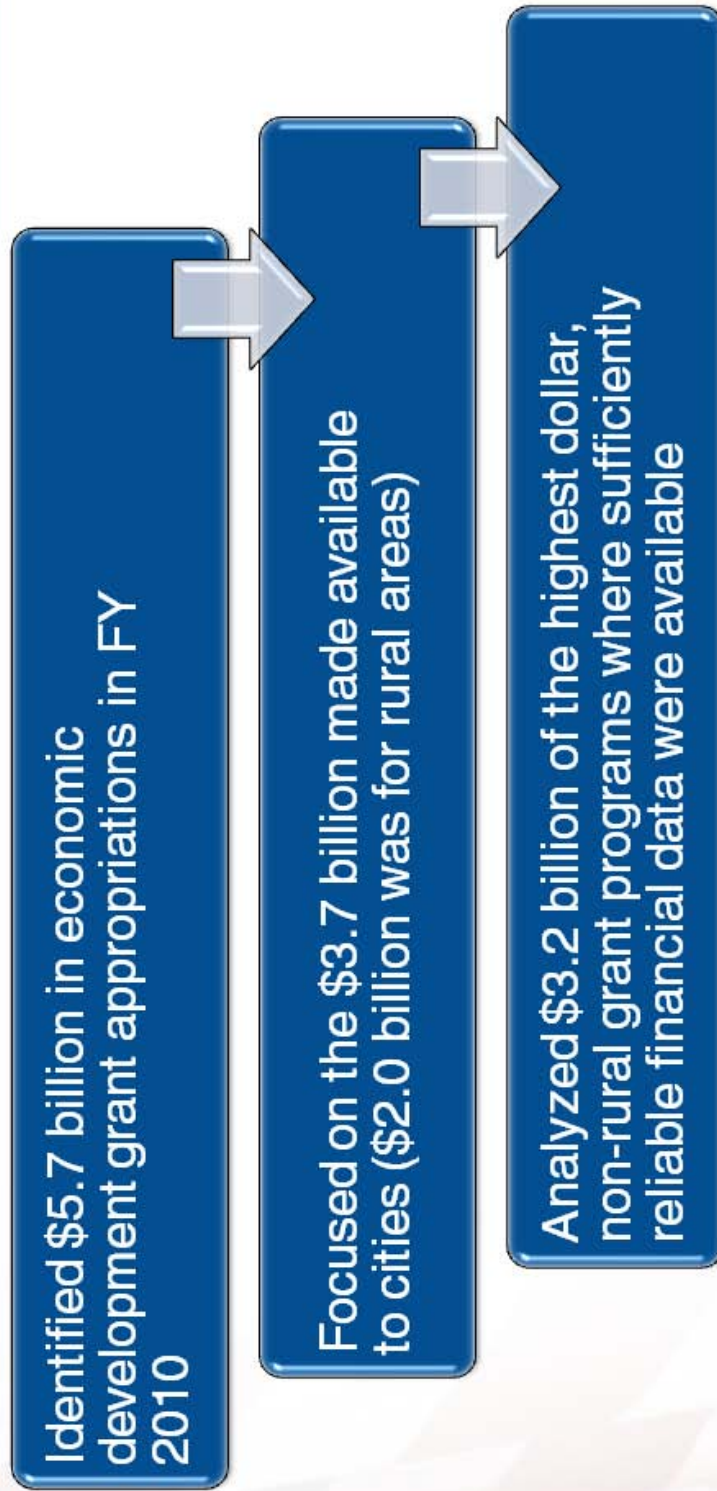
¹Nonmetro counties are all areas outside metro counties. Metro counties, as defined by the Office of Management and Budget, include central counties containing one or more urbanized area (i.e., areas with an urban center with a population of 50,000 or more); outlying counties are included if economically tied to the core counties as measured by work commuting.



Scope and Methodology: Indicators of Economic Distress and Measures of Funding



Scope and Methodology: City Analysis



Source: GAO.

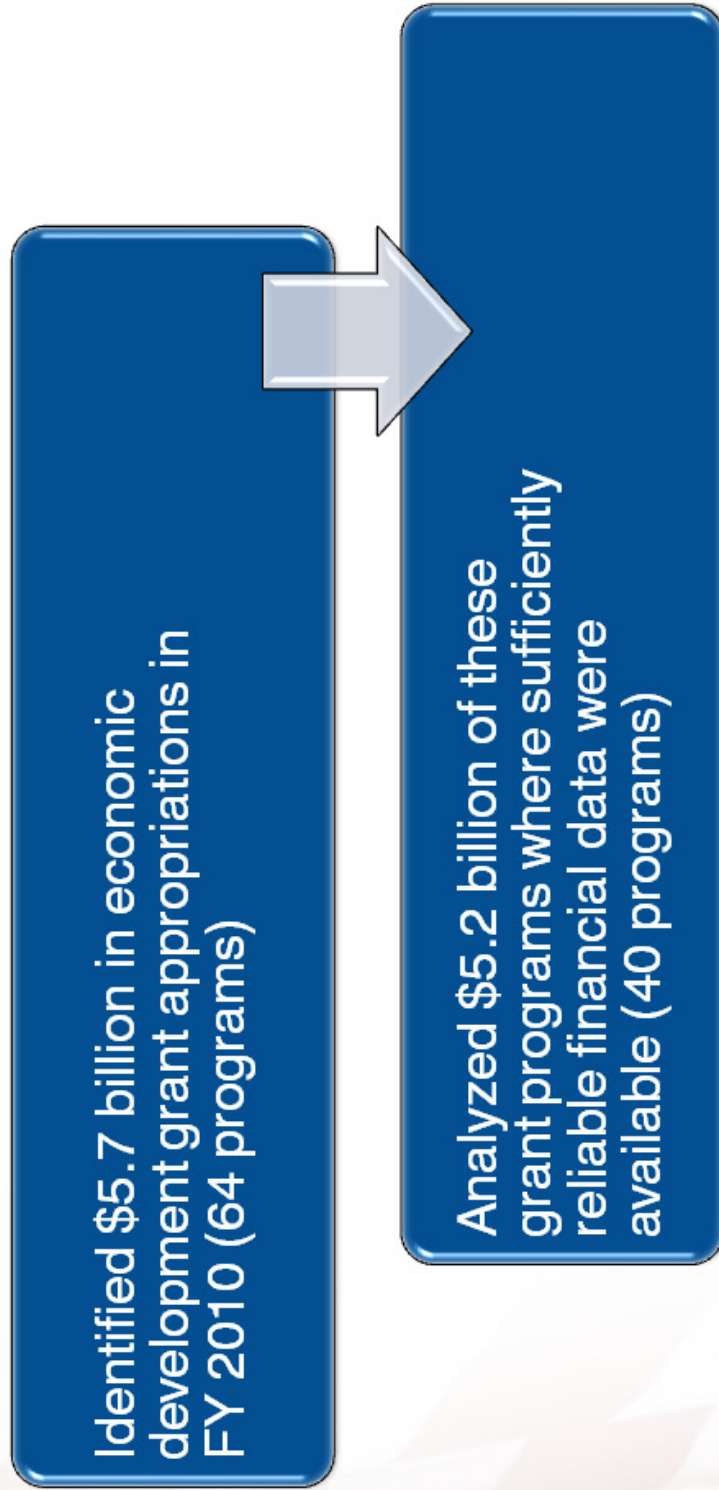
Scope and Methodology: City Analysis

To estimate variations in economic development grant funding, we:



Note: For this analysis we focused on the distribution of economic development grant funding to cities with populations of at least 65,000 as reported by the 1-year estimates of the U.S. Census Bureau's American Community Survey.

Scope and Methodology: Nonmetro County Analysis



Source: GAO.

Scope and Methodology: Nonmetro County Analysis

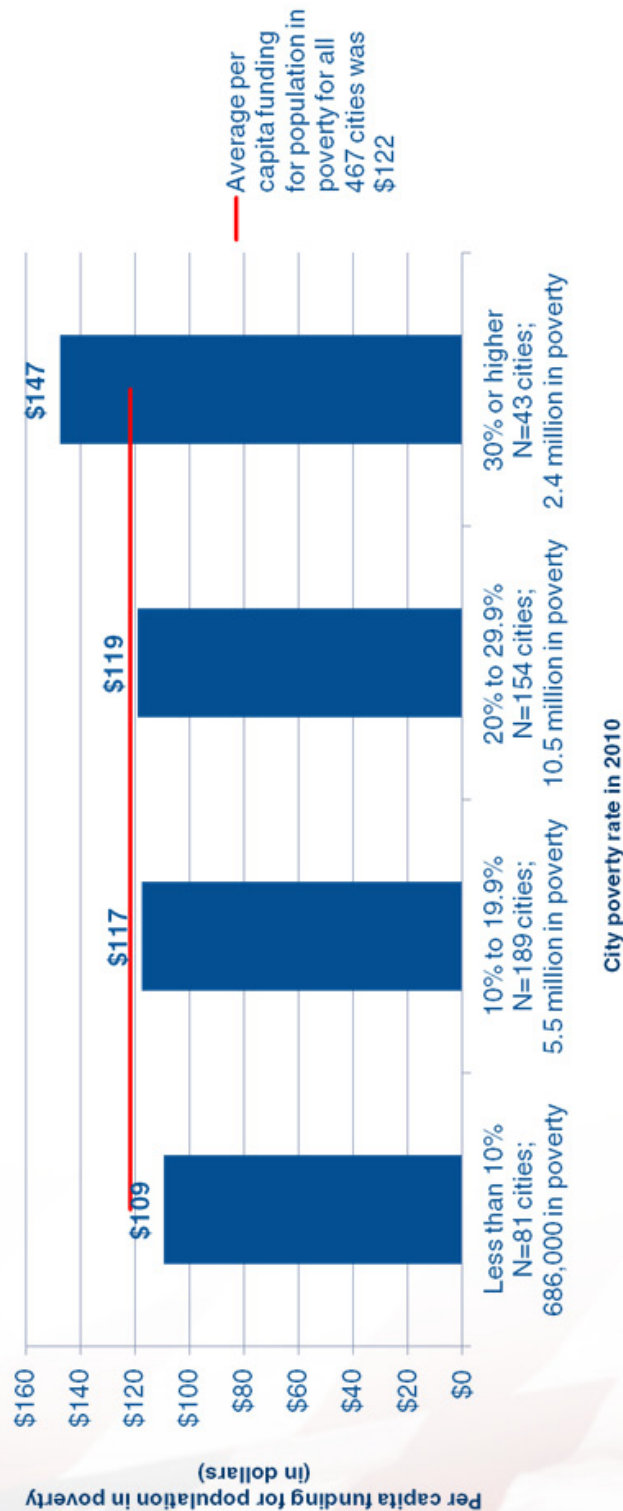
To estimate variations in economic development grant funding, we:



*The U.S. Census Bureau's American Community Survey (ACS) 2010 5-year estimates are period estimates, meaning that the survey data were collected over a period of 5 years between 2006 and 2010. Therefore, the poverty and unemployment figures represent the period of 2006 through 2010. We used the 5-year estimates because they provide survey data for all counties, whereas other estimates such as the ACS 1-year estimates for 2010, would not include data for counties with very small populations.

City Analysis: Per Capita Grant Funding Distribution for Population in Poverty Is Relatively Similar Among All Cities Except Cities with the Highest Poverty Rates

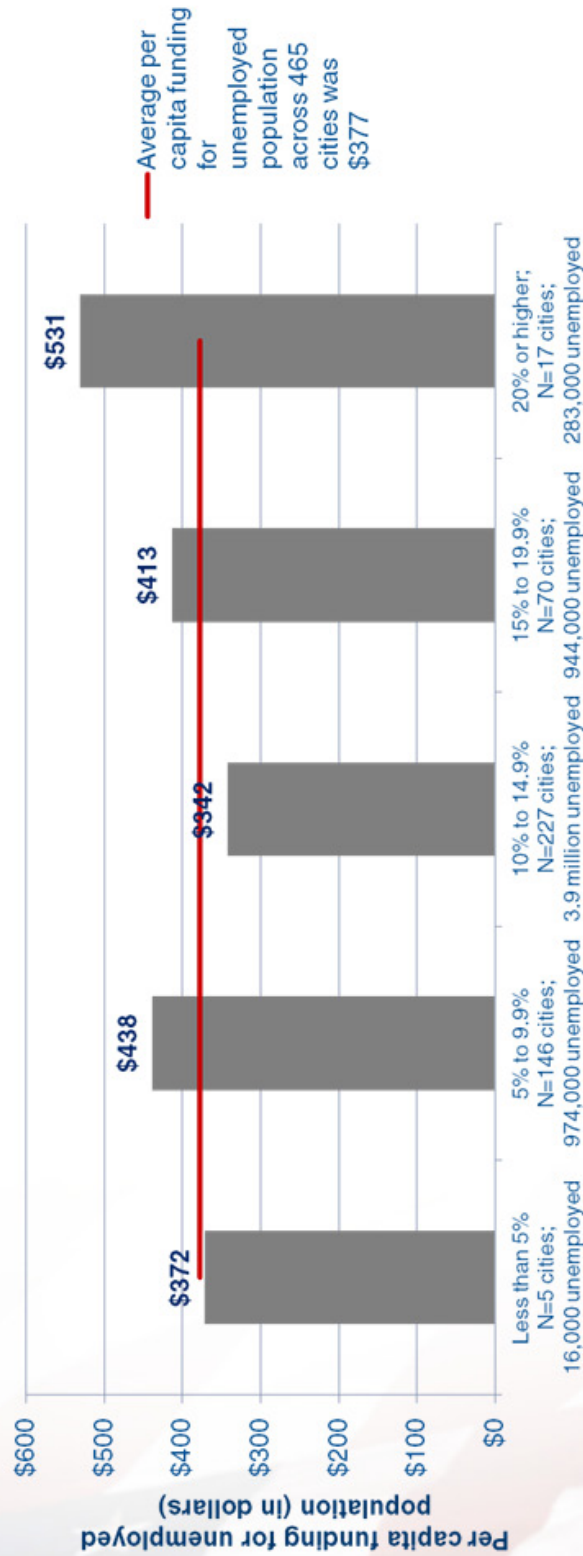
Figure 1: Per Capita Economic Development Grant Funding for Population in Poverty by City Poverty Rates in 2010



Sources: U.S. Spending.gov and U.S. Census Bureau data.
 Note: These poverty and population estimates are obtained from a sample survey of respondents and are thus subject to sampling error. We are 95 percent confident that these estimates are within plus or minus 4 percentage points of what we would have obtained if the entire population had been surveyed, with one exception. For cities with a poverty rate of less than 10 percent, we are 95 percent confident that the estimates are within plus or minus 4.4 percentage points of what we would have obtained if the entire population had been surveyed.

Cities With the Highest Rate of Unemployment Received the Most Per Capita Grant Funding for Unemployed Populations; Funding Levels Varied for Other Cities

Figure 2: Per Capita Economic Development Grant Funding for Unemployed Population by City Unemployment Rate in 2010

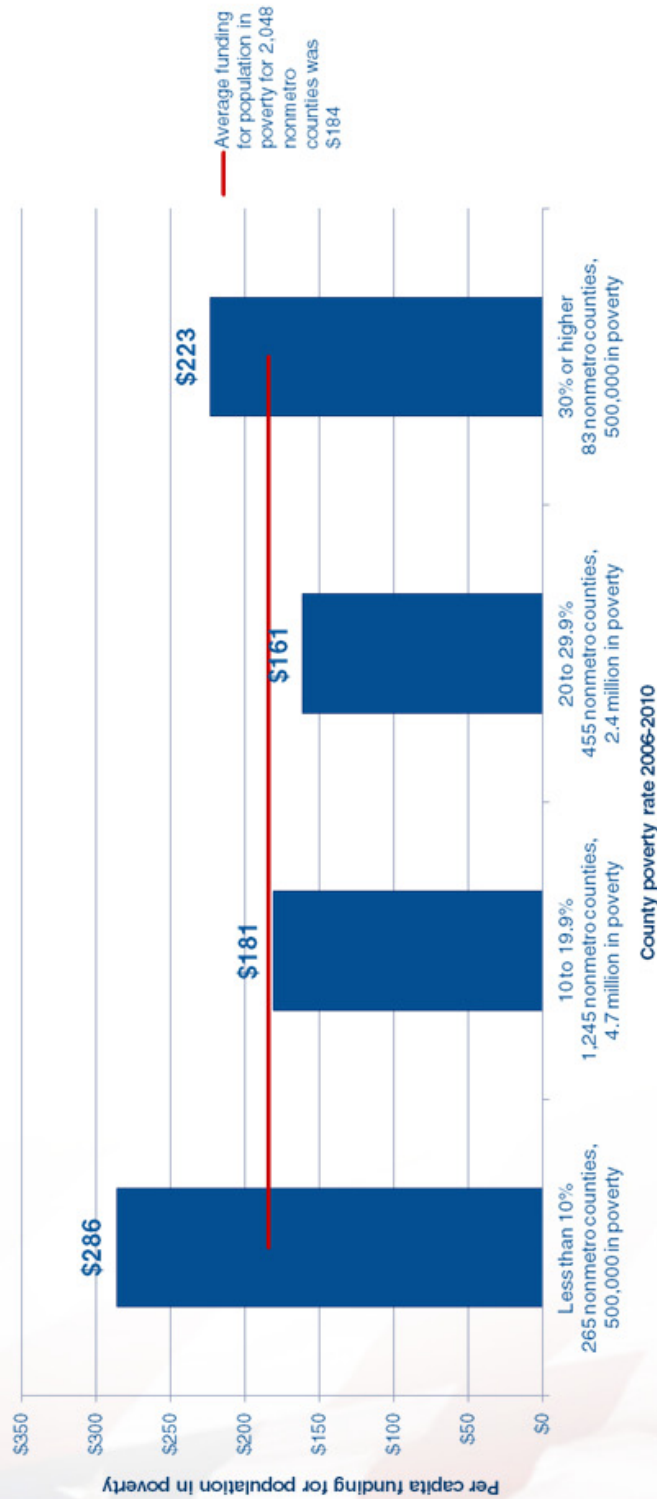


City unemployment rate in 2010

Sources: USAspending.gov and U.S. Census Bureau data.
 Note: These unemployment and population estimates are obtained from a sample survey of respondents and are thus subject to sampling error. We are 95 percent confident that these estimates are within plus or minus 4 percentage points of what we would have obtained if the entire population had been surveyed, with one exception. For cities with an unemployment rate of less than 5 percent, we are 95 percent confident that the estimates are within plus or minus 15 percentage points of what we would have obtained if the entire population had been surveyed.

Nonmetro County Analysis: Per Capita Grant Funding Distribution for Populations in Poverty in Nonmetro Counties Was Not Consistent with County Poverty Rates

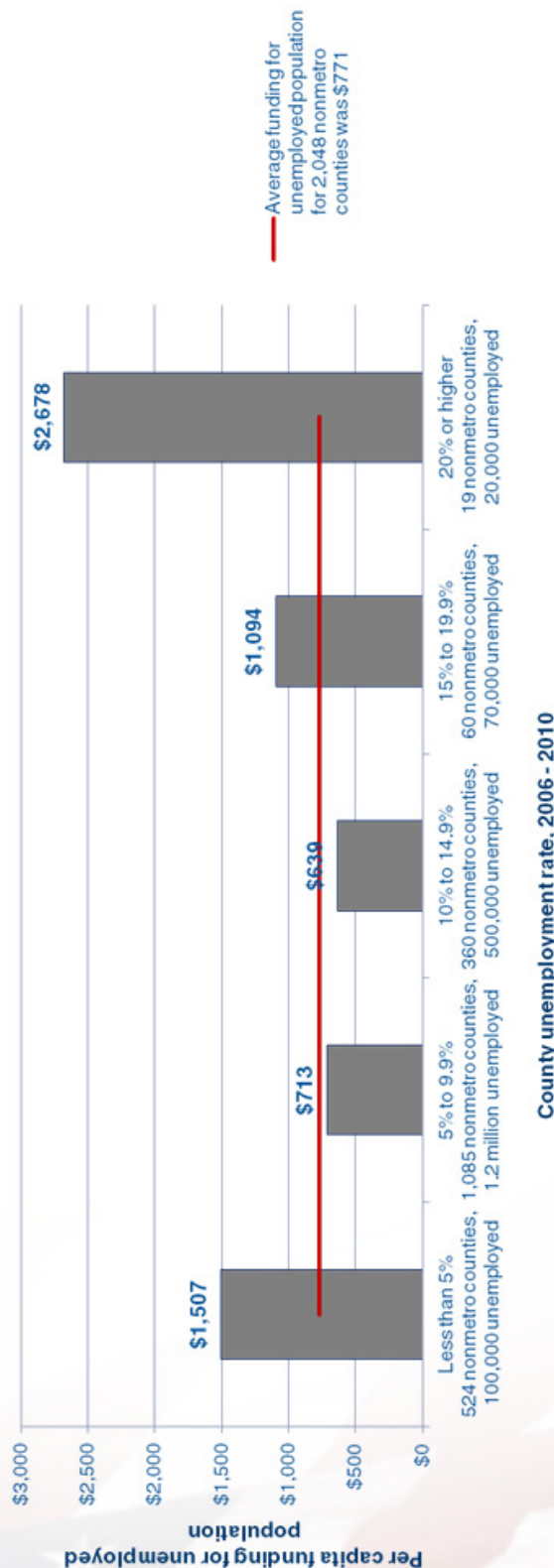
Figure 3: Per Capita Economic Development Grant Funding for Population in Poverty by Poverty Rate in Nonmetro Counties



Sources: U.S. Department of Agriculture, U.S. Census Bureau, and U.S. Department of Housing and Urban Development.
 Note: These poverty and population estimates are obtained from a sample survey of respondents and are thus subject to sampling error. We are 95 percent confident that these estimates are within plus or minus 4 percentage points of what we would have obtained if the entire population had been surveyed.

Nonmetro Counties With the Highest Rate of Unemployment Received the Most Per Capita Grant Funding for Unemployed Populations; Funding Levels Varied for Other Counties

Figure 4: Per Capita Economic Development Grant Funding for Unemployed Population by Unemployment Rate in Nonmetro Counties

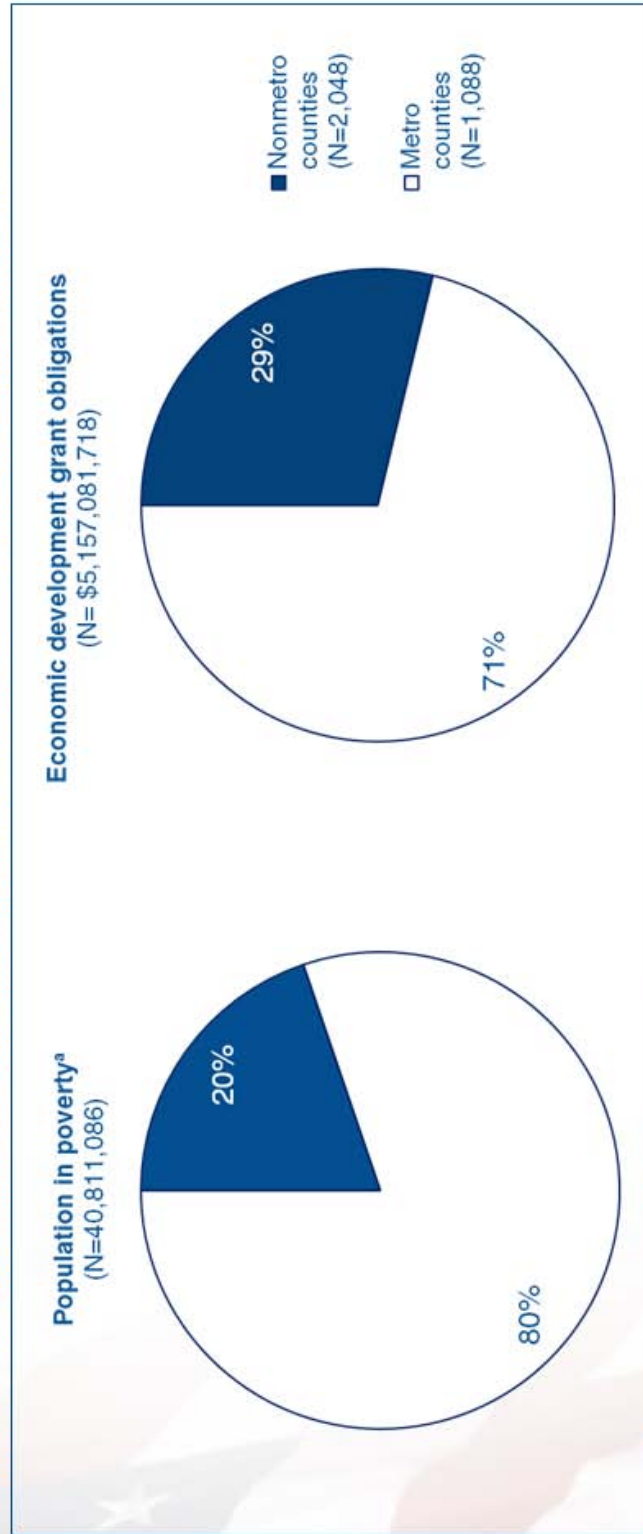


Sources: U. S. Department of Agriculture, U.S. Census Bureau, and U.S. Department of Housing and Urban Development.

Note: These unemployment and population estimates are obtained from a sample survey of respondents and are thus subject to sampling error. We are 95 percent confident that these estimates are within plus or minus 4 percentage points of what we would have obtained if the entire population had been surveyed, with one exception. For counties with an unemployment rate of 20 percent or higher, we are 95 percent confident that the estimates are within plus or minus 6.2 percentage points of what we would have obtained if the entire population had been surveyed. The counties with an unemployment rate of 20 percent or higher include several counties in states including, for example, Alaska, South Dakota, and Mississippi.

Nonmetro Counties Received a Higher Portion of Grant Funding Relative to the Percentage of People in Poverty

Figure 5: Poverty Population and Economic Development Grant Obligations for Metro and Nonmetro Counties in 2010



Sources: U.S. Department of Agriculture, U.S. Census Bureau, and U.S. Department of Housing and Urban Development.
 Note: Nonmetro counties are all areas outside metro counties. Metro counties as defined by the Office of Management and Budget, include central counties containing one or more urbanized area (i.e., areas with an urban center with a population of 50,000 or more), outlying counties are included if economically tied to the core counties as measured by work commuting.
^a American Community Survey 2010 5-year estimates are period estimates, meaning that the survey data were collected over a period of 5 years between 2006 and 2010. Therefore, the poverty figures represent the period of 2006 through 2010. We used the 5-year estimates because they provide survey data for all counties, whereas other estimates such as the 1-year estimates for 2010 would not include data for counties with very small populations. The economic development grant obligations are for fiscal year 2010.

Data Limitations

Data do not provide information on:

- where grant funded services are delivered,
- who benefits from grant funded services,
- whether the grant was effective in improving economic conditions for the county or city, or
- what other resources (i.e., federal tax expenditures or loans, state or local revenues, or private investments, etc.) also contribute to economic development in communities.^a

^a Tax expenditures are preferential provisions in the tax code, such as exemptions and exclusions from taxation, deductions, credits, deferral of tax liability, and preferential tax rates that result in forgone revenue for the federal government. The revenue that the government forgoes is viewed by many analysts as spending channeled through the tax system. See GAO, *Community Development: Limited Information on the Use and Effectiveness of Tax Expenditures Could Be Mitigated by Congressional Attention*, GAO-12-262 (Washington, D.C.: Feb. 28, 2012).

Economic Development Grant Obligations and Poverty Rates for Cities, 2010

Table 1: Economic Development Grant Obligations and Poverty by City, Fiscal Year 2010

City poverty rate	Poverty rate	Per capita funding for population in poverty	Total obligations	Total population	Total population in poverty	Number of cities
Less than 10 percent	7.5	\$109	\$74,945,364	9,291,621	686,445	81
10 to 19.9 percent	16.1	\$117	\$639,977,744	34,795,899	5,454,829	189
20 to 29.9 percent	22.6	\$119	\$1,241,993,980	47,432,663	10,450,089	154
30 and higher	34.6	\$147	\$350,974,018	7,164,949	2,381,280	43
For all 467 cities	19.7	\$122	\$2,307,891,106 ^a	98,685,132	18,972,643	467 ^b

Sources: USAspending.gov and U.S. Census Bureau data.

Note: These poverty and population estimates are obtained from a sample survey of respondents and are thus subject to sampling error. We are 95 percent confident that these estimates are within plus or minus 4 percentage points of what we would have obtained if the entire population had been surveyed with one exception. For cities with a poverty rate of less than 10 percent, we are 95 percent confident that the estimates are within plus or minus 4.4 percentage points of what we would have obtained if the entire population had been surveyed.

^a The total for this column—approximately \$2.3 billion for nonrural, high-dollar economic development grants—does not match the amount on slide 4 of \$3.2 billion for these grants. The \$3.2 billion amount is the fiscal year 2010 appropriation amount for the programs in this analysis, and the \$2.3 billion is the obligation total in fiscal year 2010 for those programs.

^b The 467 cities represent those cities with both obligation data in the USAspending.gov fiscal year 2010 grants data and poverty data available in the American Community Survey 1-year estimates. The American Community Survey 1-year estimates include cities with populations of at least 65,000.

Economic Development Grant Obligations and Unemployment Rates for Cities, 2010

Table 2: Economic Development Grant Obligations and Unemployment by City, Fiscal Year 2010

City unemployment rate	Unemployment rate	Per capita funding for unemployed population	Total obligations	Total population	Total unemployed population	Number of cities
Less than 5 percent	4.4	\$372	\$6,068,710	616,888	16,299	5
5 to 9.9 percent	8.2	\$438	\$426,734,820	22,149,304	973,926	146
10 to 14.9 percent	12.3	\$342	\$1,334,217,145	61,164,361	3,898,825	227
15 to 19.9 percent	16.3	\$413	\$390,446,887	12,020,698	944,375	70
20 percent or higher	24.8	\$531	\$149,940,006	2,582,755	282,518	17
For all 465 cities	12.0	\$377	\$2,307,407,568 ^a	98,534,006	6,115,943	465 ^b

Sources: USAspending.gov and U.S. Census Bureau data.

Note: These unemployment and population estimates are obtained from a sample survey of respondents and are thus subject to sampling error. We are 95 percent confident that these estimates are within plus or minus 4 percentage points of what we would have obtained if the entire population had been surveyed, with one exception. For cities with an unemployment rate of less than 5 percent, we are 95 percent confident that the estimates are within plus or minus 15 percentage points of what we would have obtained if the entire population had been surveyed. The 2010 unemployment rate is a period estimate based on data collected over 12 months.

^a The total for this column—approximately \$2.3 billion for nonrural, high-dollar economic development grants—does not match the amount on slide 4 of \$3.2 billion for these grants. The \$3.2 billion amount is the fiscal year 2010 appropriation amount for the programs in this analysis, and the \$2.3 billion is the obligation total in fiscal year 2010 for those programs.

^b The 465 cities represent those cities with both obligation data in the USAspending.gov fiscal year 2010 grants data and unemployment data available in the American Community Survey 1-year estimates. The American Community Survey 1-year estimates include cities with populations of at least 65,000. Though the total number of cities listed on page 15 is 467, 2 fewer cities had unemployment data available in the American Community Survey 1-year estimates.

Economic Development Grant Obligations and Poverty Rates for Nonmetro Counties

Table 3: Economic Development Grant Obligations and Poverty Rates by Nonmetro County

Nonmetro county poverty rate	Poverty rate 2006-2010	Per capita funding for population in poverty	Total obligations in FY 2010	Total population 2006-2010	Total population in poverty 2006-2010	Number of counties
Less than 10 percent	8.4	\$286	\$129,135,079	5,527,800	452,147	265
10 to 19.9 percent	14.9	\$181	\$850,695,596	32,817,637	4,704,250	1,245
20 to 29.9 percent	23.3	\$161	\$386,700,574	10,756,721	2,394,825	455
30 and higher	34.2	\$223	\$115,949,407	1,591,369	519,652	83
For all nonmetro counties	16.5	\$184	\$1,482,480,656 ^a	50,693,527	8,070,874	2,048 ^b

Sources: U.S. Department of Agriculture, U.S. Census Bureau, and U.S. Department of Housing and Urban Development data.

Note: These poverty and population estimates are obtained from a sample survey of respondents and are thus subject to sampling error. We are 95 percent confident that these estimates are within plus or minus 4 percentage points of what we would have obtained if the entire population had been surveyed.

^a The total for this column—approximately \$1.5 billion for economic development grants for nonmetro counties—does not match the amount on slide 6 of \$5.2 billion for these grants. The \$5.2 billion amount is the fiscal year 2010 appropriation amount for the programs in this analysis for all counties, and the \$1.5 billion is the obligation total in fiscal year 2010 for those programs going to recipients in nonmetro counties.

^b The 2,048 nonmetro counties represent the counties for which we were able to match poverty and unemployment data from the 2010 American Community Survey 5-year estimates. Of the 2,048 nonmetro counties, there were 423 with no record of fiscal year 2010 obligations for our selected economic development grant programs in the U.S. Department of Agriculture (USDA) Economic Research Service Federal Funds data.

Economic Development Grant Obligations and Unemployment Rates for Nonmetro Counties

Table 4: Economic Development Grant Obligations and Unemployment Rates by Nonmetro County

Nonmetro county unemployment rate	Unemployment rate 2006-2010	Per capita funding for unemployed population	Total obligations in FY 2010	Total population 2006-2010	Total unemployed population 2006-2010	Number of counties
Less than 5 percent	3.8	\$1,507	\$170,460,785	5,726,752	113,138	524
5 to 9.9 percent	7.5	\$713	\$849,883,448	33,432,195	1,191,540	1,085
10 to 14.9 percent	11.5	\$639	\$338,177,440	10,346,565	528,904	360
15 to 19.9 percent	16.5	\$1,094	\$80,181,606	1,091,439	73,280	60
20 percent or higher	22.2	\$2,678	\$43,777,378	186,576	16,345	19
For all nonmetro counties	8.0	\$771	\$1,482,480,656 ^a	50,693,527	1,923,207	2,048 ^b

Sources: U.S. Department of Agriculture, U.S. Census Bureau, and U.S. Department of Housing and Urban Development data.

Note: These unemployment and population estimates are obtained from a sample survey of respondents and are thus subject to sampling error. We are 95 percent confident that these estimates are within plus or minus 4 percentage points of what we would have obtained if the entire population had been surveyed, with one exception. For counties with an unemployment rate of 20 percent or higher, we are 95 percent confident that the estimates are within plus or minus 6.4 percentage points of what we would have obtained if the entire population had been surveyed. The 2010 unemployment rate is a period estimate based on data collected from 2006 to 2010. The counties with an unemployment rate of 20 or higher include several counties in states including, for example, Alaska, South Dakota, and Mississippi.

^a The total for this column—approximately \$1.5 billion for economic development grants for nonmetro counties—does not match the amount on slide 6 of \$5.2 billion for these grants. The \$5.42 billion amount is the fiscal year 2010 appropriation amount for the programs in this analysis for all counties, and the \$1.5 billion is the obligation total in fiscal year 2010 for those programs going to recipients in nonmetro counties.

^b The 2,048 nonmetro counties represent the counties for which we were able to match poverty and unemployment data from the 2010 American Community Survey 5-year estimates. Of the 2,048 nonmetro counties, there were 423 with no record of fiscal year 2010 obligations for our selected economic development grant programs in the U.S. Department of Agriculture Economic Research Service Federal Funds data.



Economic Development Grant Obligations, Poverty Rates, and County Metro Status

Table 5: Economic Development Grant Obligations, Poverty Rates, and Metro Status by County

	Poverty rate 2006-2010	Per capita funding for population in poverty	Total obligations in FY 2010	Total population 2006-2010	Total population in poverty 2006-2010	Number of counties
Metro counties	13.3	\$112	\$3,674,601,062	252,619,618	32,740,212	1,088
Nonmetro counties	16.5	\$184	\$1,482,480,656	50,693,527	8,070,874	2,048
All counties	13.8	\$126	\$5,157,081,718 ^a	303,313,145	40,811,086	3,136 ^b

Sources: U.S. Department of Agriculture, U.S. Census Bureau, and U.S. Department of Housing and Urban Development data.

Note: These poverty and population estimates are obtained from a sample survey of respondents and are thus subject to sampling error. We are 95 percent confident that these estimates are within plus or minus 4 percentage points of what we would have obtained if the entire population had been surveyed.

^a The total for this column—approximately \$5.2 billion for economic development grants—is not from the same source as the amount on slide 6 of \$5.2 billion for these grants. The amount on page 3 is the fiscal year 2010 appropriation amount for the programs in this analysis, and the amount on this page is the obligation total in fiscal year 2010 for those programs.

^b The 3,136 counties represent counties for which we were able to match poverty and unemployment data with the 2010 American Community Survey 5-year estimates. Of the 3,136 counties, there were 423 nonmetro counties and 160 metro counties with no record of fiscal year 2010 obligations for our selected economic development grant programs in the U.S. Department of Agriculture (USDA) Economic Research Service Federal Funds data.

Enclosure II: Selected Economic Development Programs

Agency	Program	Included in nonmetro county analysis	Included in city analysis
Commerce	Economic Adjustment Assistance	•	•
	Grants for Public Works & Economic Development Facilities	•	•
	Trade Adjustment Assistance	•	•
	Community Trade Adjustment Assistance	•	
	Economic Development - Support for Planning Organizations	•	•
	Economic Development - Technical Assistance	•	
	Minority Business Development Centers	•	
	Research and Evaluation Program	•	
	Minority Business Opportunity Committee	•	
	Community Development Block Grants (CDBG) /Entitlement Grants	•	•
HUD	CDBG/State's Program	•	
	Alaska Native/Native Hawaiian Institutions Assisting Communities	•	
	CDBG/Insular Area	•	
	Sustainable Communities Regional Planning Grant Program	•	
SBA	Small Business Development Center		•
	Microloan Demonstration Program	•	•
	Women's Business Ownership Assistance	•	•
	Microenterprise Development Grants	•	
	Veterans Entrepreneurial Training and Counseling	•	
	SCORE	•	
USDA	Water and Waste Disposal System for Rural Communities	•	
	Community Facilities Loans and Grants	•	
	Rural Energy for America Program	•	
	Water and Waste Disposal Loans and Grants (Section 306C)	•	
	Rural Business Enterprise Grants	•	
	Rural Cooperative Development Grants	•	
	Small Business Innovation Research	•	•
	Technical Assistance and Training Grants	•	
	Rural Economic Development Loans and Grants	•	
	Assistance to High Energy Cost Rural Communities	•	
	Rural Business Opportunity Grants	•	
	Public Television Station Digital Transition Grant Program	•	
	Schools and Roads Grants to States	•	
	Solid Waste Management Grants	•	
	Emergency Community Water Assistance Grants	•	
	State Bulk Fuel Revolving Fund Grants	•	

Agency	Program	Included in nonmetro county analysis	Included in city analysis
	Rural Microentrepreneur Assistance Program	•	
	Grant Program to Establish a Fund for Financing Water and Wastewater Projects	•	
	Schools and Roads Grants to Counties	•	
	Empowerment Zones Program	•	
	Distant Learning and Telemedicine Loans and Grants	•	
Total		40	9

Sources: U.S. Department of Agriculture and U.S. Department of Housing and Urban Development data and [GAO-11-477R](#).

Note: Appropriation data for these programs, which gives an indication of relative size of each program, is provided in [GAO-11-477R](#), 43-50.

Enclosure III: Comments from the Department of Commerce



UNITED STATES DEPARTMENT OF COMMERCE
The Secretary of Commerce
Washington, D.C. 20230

August 30, 2012

Mr. Stanley J. Czerwinski
Director, Strategic Issues
U.S. Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Mr. Czerwinski:

The Department of Commerce appreciates the opportunity to review and comment on the U.S. Government Accountability Office (GAO) draft report entitled *Federal Economic Development Grants to Communities with High Rates of Poverty and Unemployment* (GAO-12-938R). Our comments are enclosed.

Thank you for your work on this report. If you have any questions, please contact Jim Stowers, Acting Assistant Secretary for Legislative and Intergovernmental Affairs, at (202) 482-3663.

Sincerely,

A handwritten signature in blue ink that reads "Rebecca M. Blank".

Rebecca M. Blank
Acting Secretary of Commerce

Enclosure

Department of Commerce
Economic Development Administration (EDA)
Comments on Draft GAO Report Entitled
Federal Economic Development Grants to Communities with
High Rates of Poverty and Unemployment (GAO-12-938R)

The U.S. Department of Commerce provides the following comments:

In "Enclosure II: Selected Economic Development Programs, Fiscal Year 2010 Obligations," which appears on page 27, the amounts shown for EDA programs are from the Catalog of Federal Domestic Assistance (CFDA). The actual amounts for EDA obligations in FY 2010 are shown in Attachment A.

Staff of the U.S. Minority Business Development Administration have reviewed the obligations for their programs—Minority Business Development Centers and Minority Business Opportunity Committee—on page 27 of the draft report and find the data accurate.

Attachment A

CFDA #	CFDA PROGRAM TITLE	CFDA REPORTED (Also reported in GAO-12-938R)	EDA ACTUALS
11.307	Economic Adjustment Assistance	266,294,199	352,529,191
11.300	Grants for Public Works & Economic Development Facilities	133,709,716	149,103,803
11.313	Trade Adjustment Assistance for Firms	40,674,738	17,105,374
11.010	Community Trade Adjustment Assistance	38,568,000	36,768,000
11.302	Economic Development - Support for Planning Organizations	31,843,916	31,823,408
11.303	Economic Development - Technical Assistance	12,463,804	10,727,082
11.312	Research and Evaluation Program	2,393,689	2,239,909
11.399	Global Climate Change Mitigation Incentive Fund	-	26,905,820

Enclosure IV: Comments from the Department of Housing and Urban Development



OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

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

AUG 3 0 2012

Mr. Stanley J. Czerwinski
Director, Strategic Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Czerwinski:

Thank you for the opportunity to comment on GAO's draft report entitled "The Distribution of Federal Economic Development Grant Funds to Communities with High Rates of Poverty and Unemployment."

The Department notes that much of the information in the draft report has already been conveyed to Congressional staff through a series of briefings conducted in May and July of this year. Nonetheless, HUD does provide the following comments on the draft report.

Comment 1: GAO should provide more information on the method of allocation for each program so that readers understand variables that influence the allocation. For example, the program that most impacts the analysis is the Community Development Block Grant (CDBG) program. Under the CDBG program, by statute, there are two formulas for both the Entitlement and State programs and those formulas employ several variables - poverty, population, pre-1940 housing, slow population growth, and overcrowding - in different combinations and with different weighting. It is reasonable to expect that these formulas would target some toward poverty but it will not perfectly target toward poverty because it is designed to target multiple dimension of community need, not just poverty. Since unemployment is not one of the variables, it is only likely to target to unemployment if unemployment is correlated with one of the formula variables.

Comment 2: GAO's conclusion that "the distribution of grant funding to cities was not consistently aligned with poverty and unemployment rates" is misleading. Analyzing the same data in a different way demonstrates that communities with higher poverty rates and high unemployment rates receive considerably more on a per capita basis than communities with low unemployment rates and low poverty rates. The tables below compare the GAO approach of using "per unemployed person" and "per person in poverty" to a per capita approach. For this report, HUD recommends that GAO present both of these approaches because they answer slightly different questions.

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Unemployment Rate	Cities		Non-Metropolitan Counties	
	Per Unemployed Person	Per Capita	Per Unemployed Person	Per Capita
Less than 5 percent	\$372	\$10	\$1,507	\$30
5 to 9.9 percent	\$438	\$19	\$713	\$25
10 to 14.9 percent	\$342	\$22	\$639	\$33
15 to 19.9 percent	\$413	\$32	\$1,094	\$73
20 percent or higher	\$531	\$58	\$2,678	\$235
All	\$377	\$23	\$771	\$29

The Per Unemployed Person Approach answers the question, for the programs reviewed, of how much funding went per unemployed person to a community with high unemployment rate versus a community with low unemployment rate. If the policy goal is to target economic development funds evenly per unemployed person, this amount should be the same in each category. HUD's conclusion from the data provided would be that in cities, the amount per unemployed person is similar. There is more divergence for the non-metropolitan counties and this divergence may be worth exploring. However, in both cases, the jurisdictions with the highest unemployment rates receive considerably more per unemployed person than places with lower unemployment rates.

In contrast, the Per Capita Approach answers the question of whether communities with high unemployment rates receive more relative to communities with low unemployment rates. This answer is very clear, for both cities and non-metropolitan counties, the places with higher unemployment rates get significantly more resources per capita than the cities and counties with lower unemployment rates. That is, places with higher unemployment rates get more money when controlling for size. Since the goal of most of the programs studied is to get funds to the most distressed places, the policy conclusion should be that overall the programs do appear to achieve that objective.

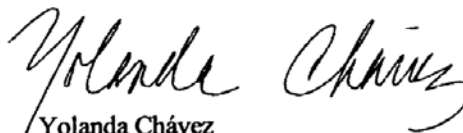
A similar analysis can be done with the poverty data (presented below) and reach the same observations.

Poverty Rate	Cities		Non-Metropolitan Counties	
	<u>Per Unemployed Person</u>	<u>Per Capita</u>	<u>Per Unemployed Person</u>	<u>Per Capita</u>
Less than 10 percent	\$109	\$8	\$286	\$23
10 to 19.9 percent	\$117	\$18	\$181	\$26
20 to 20.9 percent	\$119	\$26	\$161	\$36
30 and higher	\$147	\$49	\$223	\$73
All	\$122	\$23	\$184	\$29

In sum, HUD suggests that GAO provide both analyses to provide a more complete picture of program fund targeting.

Again, thank you for the opportunity to comment on this draft report.

Sincerely,



Yolanda Chávez
Deputy Assistant Secretary
for Grant Programs

Enclosure V: Related GAO Products

Entrepreneurial Assistance: Opportunities Exist to Improve Program Collaboration, Data-Tracking, and Performance Management. [GAO-12-819](#). Washington, D.C.: August 23, 2012

Limited Information on the Use and Effectiveness of Tax Expenditures Could Be Mitigated through Congressional Attention. [GAO-12-262](#). Washington, D.C.: February 29, 2012.

Efficiency and Effectiveness of Fragmented Economic Development Programs Are Unclear. [GAO-11-477R](#). Washington, D.C.: May 19, 2011.

Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue. [GAO-11-318SP](#). Washington, D.C.: March 1, 2011.

Revitalization Programs: Empowerment Zones, Enterprise Communities, and Renewal Communities. [GAO-10-464R](#). Washington, D.C.: March 12, 2010.

Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited. [GAO-04-306](#). Washington, D.C.: March 5, 2004

Rural Economic Development: More Assurance Is Needed That Grant Funding Information Is Accurately Reported. [GAO-06-294](#). Washington, D.C.: February 24, 2006.

Economic Development: Multiple Federal Programs Fund Similar Economic Development Activities. [GAO/RCED/GGD-00-220](#). Washington, D.C.: September 29, 2000.

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