FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

FUNCTION SUMMARY

Function 450 includes funding for community and regional development and disaster relief. The major programs are administered through several agencies including the Department of Housing and Urban Development (HUD), the Appalachian Regional Commission (ARC), the Tennessee Valley Authority (TVA), the Economic Development Administration (EDA), the Bureau of Indian Affairs (BIA), the Federal Emergency Management Agency (FEMA), and the Department of Agriculture (USDA).

In 1998, spending for Function 450 will total $8.7 billion in BA and $11.2 billion in outlays, which is a 2 percent increase from the 1997 outlays level. Discretionary spending represents 99 percent of total spending in this function. Community Development Block Grants account for about 57 percent of this discretionary funding, or $4.7 billion in 1998. Disaster spending is about 34 percent of discretionary outlays, or about $3.8 billion in 1998. As reflected in the spending summary table, under the freeze baseline, Function 450 will increase by 2.2 percent from 1998 to 2003.

Last year's BBA presumed discretionary savings of $4.5 billion over 1999-2003 compared with the 1998 level. It assumed savings would be achieved by reducing discretionary spending for Community Development Block Grants and the Appalachian Regional Commission, among other programs.

Function 450 contains numerous programs designed to increase economic development and employment. Some economists, however, believe that many of these programs reduce national income by reallocating resources and jobs from efficient areas of production to inefficient areas. In 1995, the GAO found that the fragmentation of federal community development programs across at least 12 federal departments and agencies imposed a significant burden on distressed communities seeking assistance. Overall, GAO counted 342 separate economic development programs in 1994. Historically, GAO has found little coordination among agencies, which have been protective of their own resources and separate organizational missions. The National Performance Review noted that while many community development programs made sense when considered individually, collectively they often worked against their intended purposes. Finally, in a 1996 report, GAO could not find a strong causal linkage between a positive economic effect and the economic development assistance provided by the ARC or the EDA.

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SPENDING SUMMARY
($ billions)

		1998	1999	2000	2001	2002	2003
Chairman's	BA	8.7	8.6	7.9	7.6	7.5	7.5
Mark	OT	11.2	10.9	9.7	8.9	8.1	8.1
BBA	BA	8.7	8.6	8.0	7.9	7.9	8.0
	OT	11.2	10.8	10.8	11.2	8.2	8.6
Freeze	BA	8.7	9.1	9.1	9.0	8.9	8.9
Baseline	OT	11.2	10.9	9.8	9.4	9.1	9.3
Chairman's Mark compared to:							
BBA	BA	--	-(*)	-0.1	-0.3	-0.4	-0.5
	OT	--	+0.1	-1.2	-2.3	-0.1	-0.5
Freeze	BA	--	-0.5	-1.2	-1.4	-1.5	-1.3
Baseline	OT	--	-(*)	-0.2	-0.6	-1.1	-1.3

DESCRIPTION OF THE CHAIRMAN'S MARK

The Chairman's Mark proposes discretionary spending in 1999 of $8.2 billion in BA and $11.0 billion in outlays. Compared with 1998, this represents a decrease of $0.5 billion in BA or 5 percent, and $0.4 billion in outlays or 3 percent.

Overall, the Chairman's Mark proposes to spend $1.3 billion less over five years compared with the BBA, and $5.9 billion less over five years compared with a freeze. The Chairman's Mark proposes the following:

- $4.7 billion in 1999 for **Community Development Block Grants**, an increase of 1 percent compared with a freeze. If Congressional "set-asides" were eliminated from the appropriation, the discretionary funding available to communities could increase by up to 12 percent over a freeze. Over five years, the Chairman's Mark reduces CDBGs by $2.7 billion compared with a freeze, the same amount requested by the President. Savings could also be achieved by limiting funding to the least-needy jurisdictions. In 1993, 15 of the 20 counties with the highest per capita income in the nation received funds from the CDBG program;

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- $3.4 billion in outlays in 1999 for **disaster relief**, the same as the freeze baseline.

- $67 million in 1999 for the **Appalachian Regional Commission**, a reduction of 61 percent compared with a freeze. Over five years, the Chairman's Mark reduces the ARC by $0.5 billion compared with a freeze, the same amount requested by the President. These savings are achieved primarily because the Appalachian highway construction funding will come from the Highway Trust Fund under the Senate-passed ISTEA bill;

- A phase-out of the **Economic Development Administration** by 2001, saving $1.4 billion over 1999-2003. EDA programs have been criticized for relocating businesses from one distressed community to another and for providing aid with little proven effect. Because of the competitive nature of EDA grants, local governments do not generally incorporate this aid into their budget plans. Hence, phasing out future EDA funding would not impose unexpected hardships on most communities;

- The Chairman's Mark does *not* accept the President's proposal to raise the maximum interest rate charged on the **Small Business Administration's Disaster Loans** from 4 percent to 6 percent.

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