

GAO REPORT

LOOKED AT 17 projects from early rounds. 11 were from first round.

Drew no conclusions and made no recommendations.

Made two arbitrary decisions:

**decided what they thought should be counted as private leverage.

Threw out anything that did not fit their concept. For example, threw out any money which was given to a city to be loaned to private sector, and repayed. (Lowell)

HUD counts the amount, discounted at 11%, because it will be paid back over time with interest.

EVEN WITH ALL GAO DISCOUNTED THE LEVERAGE IS STILL \$4.60 to \$1. better than any other program.

**decided whether or not private was contingent on Action grants

*** CANNOT SAY THAT HUD DID NOT MAKE MISTAKES.

MANY PROJECTS AWARDED IN THE FIRST FEW ROUNDS WOULD NEVER BE MADE TODAY.

MADE POLICY CHANGES OVER THE PAST MONTHS TO TIGHTEN UP SELECTION PROCESS.

SEVERAL PROJECTS WHICH WERE RECENTLY TURNED DOWN IN MASSACHUSETTS WOULD HAVE BEEN FUNDED IN EARLY ROUNDS.

HUD IS BEING EXTREMELY TOUGH, EXTREMELY CAREFUL ABOUT BOTH LEVERAGE AND THE CONTINGENCY OF PRIVATE COMMITMENT ON THE UDAG FUNDS.

GAO report was presented to a committee with no legislative jurisdiction over HUD

*** If we are going to change the legislative intent so drastically, this is not the forum.

We need to look at this issue in the authorizing committee, not let it be tacked on to a bill with no discussion and no hearings.

URBAN DEVELOPMENT ACTION GRANTS

In testimony before the Subcommittee on Intergovernmental Relations and Human Resources of the Government Operations Committee, the General Accounting Office presented information on their study of the Urban Development Action Grant program.

Any legislative proposals based on the GAO testimony (no report was issued), would be premature and based on incomplete information. GAO's study makes no recommendations. In addition, as GAO advised, the 17 grants selected for review in no way represented a scientific sample of the 398 Action Grants awarded to date, and they cautioned Congress against drawing any hasty conclusions from these examples. Almost all of the grants studied were from the first round of funding when operating procedures were new and unperfected.

The hearing on this complex economic development program lasted only one morning and there was no testimony from the cities or the private investors involved, much less the public at large.

Critics of the program have used the GAO report as a basis for recommending changes to "improve" the program. However, they overlook the fact that the GAO study shows that the 17 Action Grants studied produced \$4.60 of private money for each dollar of federal Action Grant funds. Indeed, leaving out three grants, the GAO concludes that for 14 grants HUD achieved a remarkable average of \$5.13 of private investment for each Action Grant dollar. This is an amazing record for grants made during the first year of a new program. We are not aware of any other public economic development program at any level of government that comes close to equalling this record.

Instead of citing the overall success of the program, critics have pointed to grants made to Corning, N.Y., and Montezuma, Ga., where GAO disagreed with HUD's finding that the expenditure of private funds was contingent on the availability of federal funds. There was, and is, no question that the private funds claimed are being spent, or that the jobs are being created. The objection is that the private investment would have taken place without the Action Grant because the City in one instance and the State in the other might have spent their own funds for the public construction that was paid for by the Action Grant.

It is almost impossible to know whether the private investment connected with one approved Action Grant would have taken place if the Action Grant had not been awarded. In the Montezuma example, HUD received a definitive letter written by the Governor of Georgia which said that the State did not have the funds needed for the roads to bypass Montezuma and provide access to the pulp mill. While we will not know whether the pulp mill would have been constructed without the road, we do know that a \$200 million property is being constructed in a very distressed southern county.