

## IMPACT OF ACTION GRANT FUND REDUCTION

If the Senate proceeds with budget reductions exactly as proposed by the Senate Budget Committee, the net effect will be a proposal to rescind \$300 million from the Urban Development Action Grant program. The \$300 million approximates the total remaining balance of funding for FY 1981; hence, no additional funding could be provided for economic development projects in distressed cities and urban counties during this fiscal year, including the awards to metropolitan cities scheduled for early April announcement.

At present, applications from small and large cities requesting approximately \$1.2 billion are pending. The proposed rescission was not included in the Reagan Administration's budget revisions. The new Administration would continue providing assistance to distressed cities at the presently authorized level, and also has proposed to continue the program at a funding level of \$500 million during FY 1982.

Unlike other Federal grant programs, Action Grants are designed to stimulate private businesses to invest in distressed cities and pockets of poverty -- cities and areas most in need of assistance and least likely to be able to benefit from economic recovery without this added incentive. No proposal is approved unless there is firm evidence that private investments will result, and an average of \$6.00 of private money has been leveraged for each \$1.00 of Action Grant funding provided.

If \$300 million is rescinded, the following will be the impact on distressed cities:

estimates  
based on  
what 300  
million  
as generated  
in the average

- o A loss of \$1.8 billion of private investment in these cities.
- o A total of 45,400 new permanent jobs will not be created in these cities. UDAG creates new jobs at a cost of \$6,600 per job.
- o The cities will forego \$5.1 million of increased annual local taxes. UDAG creates \$.17 of annual tax revenue for each dollar provided.

The above numbers do not consider the so-called "spin-off" investment, jobs, and taxes normally associated with UDAG projects; nor the construction jobs provided or jobs retained in the cities.

Such a rescission would not reduce Federal outlays during FY 1981 and there would be a minimal saving during FY 1982. This is because Action Grant projects are structured with the maximum protection for Federal dollars -- UDAG funds go into an economic development project only after private funds are spent, or only on a ratio with private expenditures.