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Federal Resources for State and Local Economic Development

Congress has authorized over 130 economic development programs, which are administered by over 20 departments and agencies. Federal resources for economic development are often delivered to state and local stakeholders through technical assistance and financial assistance programs. This In Focus provides an overview of major federal financial assistance programs; primarily administered through grants, credit assistance, and tax policies.

What Is Economic Development?

The term “economic development” lacks a common definition and can refer both to a policy objective as well as a set of tools to achieve that objective. The Department of Commerce’s Economic Development Administration (EDA), describes economic development as creating

the conditions for economic growth and improved quality of life by expanding the capacity of individuals, firms, and communities to maximize the use of their talents and skills to support innovation, lower transaction costs, and responsibly produce and trade valuable goods and services.

Economic development is also described as a long-term process designed to create jobs and economic activity, and as efforts to address equity and create wealth.

State and Local Project Examples

State and local stakeholders may seek assistance for a wide array of economic development activities, including initial planning or implementation projects, as well as support for:

- entrepreneurial assistance and business expansion, acceleration, and incubation strategies;
- infrastructure, including water and sewer systems improvements, industrial parks, skill-training facilities, and downtown and brownfields redevelopment;
- workforce development and training;
- disaster economic recovery and resiliency efforts; and
- feasibility studies and capacity-building.

How Are Federal Economic Development Resources Distributed?

In recognition that economic development needs vary, from place to place and from sector to sector, most federal economic development programs assist with projects developed from state and local plans, priorities, and input. Programs may offer flexibility to state and local stakeholders so that they may address a range of challenges and opportunities—including strategies designed to respond to structural changes in the U.S. and regional economies.

Economic development may be an agency’s primary mission or it may be more indirectly related. The EDA is the only federal agency with economic development as its exclusive mission. See **Table 1** for selected agencies that administer programs that are often considered integral to economic development.

Congress has authorized other agencies to administer programs that create conditions to support economic development as well. Such agencies include the Departments of Defense (DOD), Education (ED), Energy (DOE), Health and Human Services (HHS), Homeland Security (DHS), the Interior (DOI), and Transportation (DOT), as well as the U.S. Environmental Protection Agency (EPA) and other agencies. Programs administered by these agencies are primarily authorized to address other purposes such as land use, transportation, education, health, livability, and other amenities, conditions, or events. In terms of economic development, these programs may incentivize private investment; contribute to a community’s quality of place; improve individuals’ wellbeing, income, or job prospects; or advance other related outcomes.

Types of Assistance and Eligibility Criteria

Federal programs vary by purpose, eligibility criteria, and the types of activities supported. Some federal assistance is targeted to specific scenarios or disruptions (e.g., assistance in response to economic dislocations or shocks, or assistance for ongoing conditions of economic distress). Federal programs often target a specific geographic area. Some programs direct assistance to individuals, or specific stakeholder groups or regions (e.g., low- and moderate-income areas, rural areas, workers, students, small businesses, regions with specific industries). Such programs include HUD’s Community Development Block Grant, grant programs administered by federal regional commissions, and others. With some exceptions, federal economic development programs generally assist businesses through credit assistance, technical assistance (e.g., business coaching, mentoring), or tax policies, rather than through direct grants to businesses.

Considerations for Congress

Continued interest in economic development may warrant more analysis of the role of the federal government, the level of assistance, and program coordination across agencies, as well as the accessibility and impact of programs. Congress may seek to evaluate the criteria, priorities, and allocation methodology for the overall portfolio of federal programs as well as for individual programs. Congress may consider options for addressing economic disparities, assisting lagging regions, and providing economic relief to individuals and businesses

adversely affected by disaster events and the COVID-19 pandemic through existing or new programs.

Table I. Select Forms of Federal Financial Assistance that Support Economic Development

Financial Assistance	Description and Role	Administering Federal Agency and Programs
Grant Programs	<p>Grants are forms of financial assistance that provide money, property, services, or other items of value for goals authorized by Congress, including economic development. Congress has approved categorical grants and block grants for federal economic development programs. Block grants generally 'pass through' funding to states, territories, and/or tribes, and awards are then made to subrecipients to implement program objectives. Categorical grants have a more defined purpose compared to block grants.</p> <p>Agencies allocate funds using both competitive and formula methods.</p> <p>Depending on the statute, federal grants for economic development may require recipients to contribute matching funds.</p> <p>Cost-share requirements vary by program and may depend on criteria such as levels of economic distress, type of applicant, and other conditions.</p> <p>Unlike most credit programs, recipients of grant assistance are not required to repay funds.</p> <p>See CRS Report R42769, <i>Federal Grants-in-Aid Administration: A Primer</i>, by Natalie Keegan.</p>	<ul style="list-style-type: none"> • U.S. Department of Agriculture (USDA) Rural Development grant programs that support the construction or renovation of community infrastructure and facilities; broadband planning and development; business development, credit, and assistance; and other activities in rural communities. • The Economic Development Administration (EDA) administers multiple economic development programs, including the Public Work, Economic Adjustment Assistance, Build to Scale, Partnership Planning, and Local Technical Assistance grants. • Department of Housing and Urban Development (HUD) administers the Community Development Block Grant (CDBG) program. A range of community and economic development projects may be considered eligible activities under CDBG. • Department of Labor and other agencies administer workforce development and training grant programs. • Grant programs are administered by the four active federal regional commissions (the Appalachian Regional Commission (ARC), Denali Commission, Delta Regional Authority, and Northern Border Regional Commission) and are available to eligible applicants in the congressionally determined regions.
Credit Assistance Programs (e.g., direct loans and loan guarantees)	<p>Federal credit assistance programs expand access to capital through federal loan guarantee and direct loan programs.</p> <ul style="list-style-type: none"> • A loan guarantee may be defined as "a loan or security on which the federal government has removed or reduced a lender's risk by pledging to repay principal and interest in case of default by the borrower." • A direct loan is "a disbursement of funds by the government to a nonfederal borrower under a contract that requires the repayment of such funds with or without interest." <p>Many economic development credit assistance programs aim to address private market capital gaps.</p> <p>Credit programs may lend directly to borrowers or they may pass capital through intermediary organizations or financial institutions.</p>	<ul style="list-style-type: none"> • USDA administers direct loans and loan guarantees for public and private sector borrowers in rural areas. • EDA, USDA, HUD, ARC, and other agencies make grants to entities that administer revolving loan funds (RLFs) to provide credit assistance in underserved markets. See CRS In Focus IFI1449, <i>Economic Development Revolving Loan Funds (ED-RLFs)</i>, by Julie M. Lawhorn. • HUD's Section 108 loan guarantee program allows local and state governments to leverage their CDBG allocation as a loan guarantee for large-scale development projects. • Small Business Administration (SBA) programs provide loans and loan guarantees through private lenders to assist small businesses that are otherwise unable to access credit on reasonable terms. These programs are designed to promote competition in private markets. • Department of the Treasury's Community Development Financial Institutions (CDFI) Fund administers programs to expand credit to development finance institutions, which then provide credit and other services to underserved individuals and communities.
Incentives Through Tax Policies	<p>Tax policies (e.g., exemptions, preferential rates, credits) are a form of financial incentives that can be designed to facilitate economic development objectives. Federal tax policies may be designed to encourage capital investment in low-income or economically distressed communities.</p>	<ul style="list-style-type: none"> • The Treasury's CDFI Fund certifies entities and designates areas for the New Markets Tax Credit program. • The CDFI Fund also certifies areas (nominated by state governors) eligible for Opportunity Zone tax incentives.

Sources: Compiled by CRS from agency information and other sources: 2 U.S.C. §661a(1) as noted in CRS Report R44193, *Federal Credit Programs: Comparing Fair Value and the Federal Credit Reform Act (FCRA)*, by Raj Gnanarajah; Congressional Budget Office, "Loan Guarantees: Current Concerns and Alternatives for Control," August 1978, as noted in CRS Report R42152, *Loan Guarantees for Clean Energy Technologies: Goals, Concerns, and Policy Options*, by Phillip Brown; Karl F. Seidman, *Economic Development Finance* (Thousand Oaks, CA: Sage Publications, 2005); and International Economic Development Council, *Economic Development Reference Guide*.

Notes: This table is not intended to be comprehensive. See also CRS Report R46683, *Federal Resources for State and Local Economic Development*, by Julie M. Lawhorn; and <https://www.eda.gov/files/edi/Federal-Economic-Development-assistance-Matrix.xlsx>.

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