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Areas of Economic Distress for EDA Activities and Programs

Congress has used program criteria to direct federal assistance to areas that are economically distressed or comparatively disadvantaged. Place-based measures frequently associated with economic distress include indicators such as poverty, unemployment rates, and income levels. The term "economically distressed area" lacks a standardized definition and may vary by agency, program, or executive branch initiative. This In Focus summarizes the criteria as well as the data sources and mapping tools used for determining economic distress for activities and programs administered by the Department of Commerce, Economic Development Administration (EDA). It also includes considerations for Congress regarding the EDA's criteria.

Economic Distress Criteria in PWEDA

Section 301(a) of the Public Works and Economic Development Act (PWEDA) of 1965 (42 U.S.C. §3161(a)) describes the economic distress criteria and thresholds that qualify areas as eligible for assistance through selected EDA programs and for other purposes. In PWEDA, economic distress is determined by one or more of the following calculations or thresholds:

- **Low per capita income**—the area has a per capita income of 80% or less of the national average;
- **Unemployment rate above national average**—the area has an unemployment rate that is, for the most recent 24-month period for which data are available, at least one percent greater than the national average unemployment rate; *or*
- **Special Need**—an area that "has experienced or is about to experience a special need arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short-term or long-term changes in economic conditions (42 U.S.C. §3161(a)(3))." Special needs have included substantial out-migration or population loss, military base closures, and negative effects of changing trade patterns.

How Does EDA Apply Economic Distress Criteria?

Since authorizing the agency in 1965, Congress has directed EDA to address long-term economic distress and economic adjustment concerns resulting from short-term disruptions in various ways. For instance

- Among other requirements, PWEDA specifies that projects that receive Public Works and Economic Adjustment Assistance (PWEAA) funding shall serve areas that meet one or more of the economic distress criteria (42 U.S.C. §3161(a)).
- Areas that meet certain thresholds of the economic distress criteria may qualify for reduced cost-sharing responsibilities in some EDA programs. Generally, EDA funds 50% of total costs for PWEAA projects. EDA regulations outline the maximum allowable federal investment rate for projects based on levels of economic distress, among other factors (13 C.F.R. §301.4). For nondisaster PWEAA grants, the maximum EDA investment rate may increase by an additional 30% based on regional needs that reflect conditions of economic distress (42 U.S.C. §3144). EDA may provide disaster recovery and other assistance at an even lower cost-sharing rate.
- Economic distress criteria are also used to designate Economic Development Districts (EDDs). EDDs must "contain at least one geographic area that fulfills the economic distress criteria" among other requirements (42 U.S.C. §3171).
- EDA-supported University Centers are required to provide services that benefit distressed areas (13 C.F.R. §306.5(a)).

Unlike the items above, there are typically no requirements to meet minimum levels of economic distress for EDA's training, research, and technical assistance programs or planning investments (13 C.F.R. §301.3(b)), or for EDA programs authorized by the Stevenson-Wydler Technology Innovation Act of 1980, as amended (15 U.S.C. §3701 et seq.) or the Trade Act of 1974, as amended (19 U.S.C. §2341 et seq.).

Measuring Economic Distress

For EDA purposes, data from the U.S. Census Bureau and the Bureau of Labor Statistics (BLS) are generally the primary sources used to measure economic distress. According to statute and regulations

- **Low per capita income** may be determined by Per Capita Money Income (PCMI) data (five-year data from the Census Bureau's American Community Survey (ACS)); and
- **Unemployment rate** may be determined by the most recent data published by the BLS's Local Area Unemployment Statistics (LAUS).

If the ACS or BLS data are not the most recent or available federal data, EDA considers federal data from other sources. If no federal data are available, EDA may consider data from the state (42 U.S.C. §3161(c)). The circumstances for distress qualifying as a special need are specified in legislation, regulations (13 C.F.R. §301.3), and funding notices. EDA reviews the evidence of special need provided by grant applicants. For EDA purposes, designations of economic distress may change at different intervals because unemployment rate data are updated monthly and PCMI data are updated annually.

How Are EDA Project Areas Determined?

As noted, PWEDA requires projects that receive PWEAA assistance to serve areas that meet one or more of the economic distress criteria. Since EDA directs applicants to self-define project areas geographically, project areas may contain one or more census tracts, counties, or parts thereof. According to EDA regulations, "Geographic areas comprising a region need not be contiguous or defined by political boundaries, but should constitute a cohesive area capable of undertaking self-sustained economic development" (13 C.F.R. §300.3). The economic distress criteria apply to both rural and urban areas.

Stats America Measuring Distress Tool

To determine whether an area may meet the EDA threshold for economic distress, the Indiana Business Research Center, through its online Stats America service, created a "Measuring Distress" tool. The tool calculates a project area's threshold based on recent unemployment and per capita income data (https://www.statsamerica.org/distress/). Stats America is supported in part by the EDA. The tool provides data at several levels—for one or more regions, counties, or census tracts. The tool's threshold calculation reflects the difference between the rate or value for the selected county or census tract and the rate or value for the United States. By example, if Area A has a 24-month rate of 6.9 and the U.S. rate is 7.9, the difference shown in the threshold calculation is -1.0—meaning it is one point lower than the U.S. value.

Considerations for Congress

PWEDA's statutory authority lapsed on September 30, 2008. If Congress considers legislation to reauthorize and/or amend PWEDA, policymakers may seek to maintain or change EDA's current criteria, the thresholds for economic distress, and/or related cost-share requirements.

If policymakers maintain the current distress criteria, then EDA's framework will continue to provide two threshold measures and several types of special need scenarios for areas to qualify as economically distressed. In addition to the scenarios and conditions provided by Congress in statute, the agency may further describe areas of special need in notices of program funding, and areas may continue to qualify based on actual or threatened severe unemployment or economic adjustment problems.

Alternatively, Congress may seek to add or modify the criteria or thresholds used to designate areas of economic distress and the related cost-share requirements. Such changes could be designed to limit or expand access to grants for certain areas. Congress may seek to examine the impact of such changes on communities of different sizes and in various regions, among other characteristics and variables. In considering changes, policymakers may also seek to examine whether there are biases or limitations associated with any new proposed indicators or threshold levels. For example, in comparing unemployment rates and income data in the early 2000s, researchers observed that urban areas were more likely to demonstrate conditions of distress based on unemployment rates, and rural areas were more likely to do so based on income levels. (See *EDA and U.S. Economic Distress 1965–2000*). As noted, EDA program criteria allow areas to qualify based on unemployment *or* income levels, as well as special needs.

Economic distress may involve a complex set of contributing factors, including noneconomic variables, and indicators could measure the causes and/or effects of distress. Additionally, economic distress conditions may be due to structural, long-term factors or to cyclical factors related to shocks or business or financial conditions. Both sets of factors can impart long-lasting negative impacts on regional economies. Congress may review whether proposed changes would impact areas that experience distress as a result of one or both causes. Congress may also review whether new or modified distress criteria would measure conditions or issues that the agency and grantees have the capacity to influence.

In considering potential changes to the criteria, Congress may also evaluate the level of agency discretion involved in determining economic distress and the associated cost share requirements. Congress may also examine if data for potentially new criteria are available for small geographic units and how frequently are they updated. If data are not available at the county and/or census tract level, Congress may review whether to provide one or more options for areas to qualify. If Congress wants to provide flexibility in how project areas may be designated, policymakers may seek to provide options for alternative measures and/or for a special need designation. Changes to economic distress criteria may impact EDA's EDD designations as well as non-EDA programs that refer to 42 U.S.C. §3161(a) in statute (e.g., Federal Aviation Administration and other programs).

Non-EDA Examples of Economic Distress Criteria

Policymakers may seek to review other programs and initiatives that use place-based socioeconomic criteria to designate areas of economic distress. Such criteria may involve similar measures of poverty, unemployment, or income, but may also include population size or rate of decline, and other indicators. Time period criteria and data thresholds may vary by program (i.e., the most recent two-, three-, or ten-year periods or specific thresholds compared to state or metropolitan area levels). Agencies may apply an index- or rank-based approach in order to compare county data to national levels (e.g., the Appalachian Regional Commission's county economic classification system). Examples include the Small Business Administration's Historically Under-utilized Business Zones (HUBZones) program; federal tax incentives such as the New Market Tax Credits and Opportunity Zones; and the Department of Housing and Urban Development Distressed Cities Technical Assistance program. Additionally, the Promise Zones initiative was implemented during the Obama Administration to provide assistance to urban, rural, and tribal communities based on poverty and other data.

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