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**COMMUNITY
DEVELOPMENT****Comprehensive Approaches
and Local Flexibility Issues**

Statement of Judy A. England-Joseph,
Director, Housing and Community Development Issues,
Resources, Community, and Economic Development Division



Mr. Chairman and Members of the Committee:

We are pleased to be here today to participate in your hearing on S.88, the Local Empowerment and Flexibility Act of 1995, whose purpose is to create increased flexibility for local governments and private nonprofit organizations using federal programs to assist communities and their residents. The proposed act would, among other things, create a council composed primarily of cabinet-level officials to review and approve local plans for integrating federal funds to meet the needs of a specific geographic area. The plans would include requests to waive federal laws and regulations that hinder the locality's ability to implement its plan.

Our testimony is based primarily on our February 1995 report on community groups that are using a multifaceted--or comprehensive--approach that relies on residents' participation to address housing, economic, and social service needs in distressed neighborhoods.¹ Comprehensive efforts typically receive technical support and funding from nonprofit organizations, state and local governments, and a variety of federal sources. Federal funding generally flows through state and local governments in the form of block grants or goes directly to the organizations in the form of categorical, or program-specific, funding. In our February report, we examined (1) why community development experts and practitioners advocate a comprehensive approach, (2) what challenges they see to its implementation, and (3) how the federal government might support comprehensive approaches. The report incorporated information obtained during our review of four organizations that are applying a comprehensive approach for improving their respective communities.² In addition, in this testimony we will discuss how recent experiences with the Empowerment Zone and Enterprise Communities Program provide helpful insights but also pose questions about the complexity of an undertaking like that envisioned in the proposed Flexibility Act.

In summary, our February report and recent work have shown the following:

- Community development experts advocate comprehensive approaches to address the problems of distressed neighborhoods because such complex, interrelated problems are better

¹Community Development: Comprehensive Approaches Address Multiple Needs but Are Challenging to Implement (GAO/RCED/HEHS-95-69, Feb. 8, 1995).

²The four organizations we studied were (1) the Core City Neighborhoods in Detroit, Michigan; (2) the Dudley Street Neighborhood Initiative in Boston, Massachusetts; (3) the Marshall Heights Community Development Organization in Washington, D.C.; and (4) the Neighborhood Housing Services in Pasadena, California.

addressed in tandem than individually. The comprehensive approach was endorsed by the Department of Housing and Urban Development (HUD) in March 1994. Several national foundations--frustrated with the results of programs they previously funded--have begun funding organizations that are taking a comprehensive approach.

- Multiple challenges confronted the four organizations we studied. The organizations had to, among other things, piece together a complex web of funding from several private and public sources to cover program and administrative costs. Overall, the groups relied on public funding--often with conditions and/or restrictions on its use--for 30 to 60 percent of their budgets. The organizations also faced the onerous task of managing a diverse set of concurrent housing, economic development, and social service programs.
- The federal government assists distressed urban communities and their residents through a complex system involving multiple federal departments and agencies. Together, these agencies administer hundreds of programs in the areas of housing, economic development, and social services. These agencies have tended not to coordinate their efforts with one another because they have separate missions and have been concerned about losing control over their own resources. In addition, the federal efforts to coordinate that have been undertaken have had few successes, leaving community organizations--such as the ones we reviewed--with the burden of trying to piece together programs to serve their communities.
- The Empowerment Zone and Enterprise Communities Program allowed communities to request waivers to certain federal requirements. In light of the lessons HUD has learned from its experience with the Empowerment Zone and Enterprise Communities Program, some questions that might be considered with respect to the proposed Local Empowerment and Flexibility Act of 1995 include: (1) what process will allow the flexibility plans to be approved in a timely manner while allowing the agencies time to consider and process the waiver requests, (2) how will waiver requests that cut across federal agencies be approved and monitored, (3) how can accountability for the funds and programs affected by the waivers be built into the process, and (4) what level of resources will be necessary to administer the provisions of the proposed act and in an era of downsizing, where will these resources come from?

BACKGROUND

Despite overall economic growth in the United States during the 1980s, the economic and social health of many cities declined. While crime, poverty, and the physical and social deterioration of

urban neighborhoods increased, intergovernmental aid to cities declined between 1980 and 1993 by about 19.4 percent in constant dollars. Meanwhile, the out-migration of many middle-income residents and businesses has caused cities' tax bases to shrink, hampering the ability of local governments to assist economically and socially distressed areas suffering from a mix of interrelated problems.

Over the past several decades, the public and private sectors have tried different strategies to assist people living in distressed communities. Some of these efforts have focused on improving the chances for individuals in these areas to obtain the education, social services, and other support that they need in order to leave their neighborhoods. Others have focused on improving the neighborhoods' physical environment through affordable housing or economic development. Still others have combined aspects of both approaches by addressing the needs of residents and their environment. These latter efforts are referred to as "comprehensive" by community development experts because they consider the housing, economic development, and social service needs of communities and are considered community-based because they focus on specific geographic areas and involve the residents in the planning and implementation. Comprehensive community-based efforts have often begun within communities in response to neighborhood conditions--rather than in response to a federal program--and are operated by local nonprofit organizations.

The Empowerment Zone and Enterprise Communities Program, which was established by the Omnibus Budget Reconciliation Act of 1993, represents a major federal investment in comprehensive strategies and local flexibility. Under this program, over 500 rural and urban communities submitted strategic plans for revitalizing a distressed community. In their applications, communities were encouraged to identify the specific programmatic or regulatory impediments--within certain areas--to achieving the outcomes they sought. On December 21, 1994, 71 urban and 33 rural Empowerment Zones and Enterprise Communities were designated. Together, they will receive \$1 billion in Social Services Block Grant funding, tax incentives estimated at \$2.5 billion, and priority for other federal grant programs.

COMPLEX PROBLEMS CALL FOR COMPREHENSIVE APPROACHES

According to the experts we consulted, comprehensive approaches enhance the chances of improving conditions in distressed neighborhoods because the problems in these areas are complex and interrelated. Addressing these problems in tandem, the experts believe, makes long-term results possible. In addition, the experts said that comprehensive approaches are more viable now than they were in the past because community organizations have gained experience and an infrastructure has evolved to provide funding and technical assistance. However, the experts cautioned

that conditions in distressed neighborhoods cannot be quickly reversed and that the outcome of much of the work these groups do--community outreach, counseling, and referral services--is hard to quantify, making evaluation of the results difficult. The comprehensive approach was endorsed by HUD in March 1994 in a publication in which the Secretary wrote, "We believe the best strategy to community empowerment is a community-driven comprehensive approach which coordinates economic, physical, environmental, community, and human needs." Dissatisfied with the results of previous single-focused approaches to community revitalization, national organizations and foundations have begun funding organizations that are taking a comprehensive approach.

COMPREHENSIVE APPROACHES ARE DIFFICULT TO IMPLEMENT

Multiple challenges confronted the four organizations we studied. All experienced substantial difficulty organizing residents, gaining their trust, and maintaining their involvement. All four organizations said that residents needed to see a tangible result--rehabilitated housing or a cleaner neighborhood--before they wanted to participate. Obtaining financial support and managing a diverse set of concurrent programs also presented significant challenges. The four organizations relied on a myriad of public and private funding sources, such as federal block grant and program-specific funding, foundation grants, and corporate donations. Overall, the organizations relied on public funding--often with conditions and/or restrictions on its use--for 30 to 60 percent of their budgets. After obtaining funds, the organizations faced the challenge of concurrently managing multiple programs, each with several separate funding sources; application requirements; and reporting expectations.

The four organizations we studied responded to the challenges confronting them in a variety of ways. They obtained residents' support by including residents in their planning and decision-making. They also used the multiple funding sources and collaborations to leverage resources that could then be applied over a wide range of needs in the communities. In addition, each organization had access to some relatively flexible funding--either public block grants or private foundation funds--that enabled it to set priorities consistent with its community's needs. Finally, the organizations built a cadre of experienced staff to administer and manage the array of programs.

FRAGMENTATION OF FEDERAL PROGRAMS IS BURDENSOME TO COMMUNITIES

The federal government assists distressed urban communities and their residents through a complex system involving multiple federal departments and agencies. Together, these agencies administer hundreds of programs in the areas of housing, economic development, and social services. For example, we recently issued

a report listing over 340 federal economic development-related programs administered by 13 of the 14 executive departments and many agencies and administrations.³ Considered individually, many of these programs make sense. But together they often work against the purposes for which they were established, according to a National Performance Review report.

In addition, there has traditionally been little coordination among the many federal departments and agencies with the responsibility for administering the programs that can be used to assist distressed communities. Agencies have tended not to coordinate efforts with one another because they have been protective of their own resources and separate organizational missions.

The proliferation of federal programs and the lack of coordination among agencies impose a burden on local organizations that attempt to piece together programs to serve their communities. The neighborhood organizations we studied found it burdensome to manage multiple programs with individual funding streams, application requirements, and reporting expectations. In addition, one organization reported that it had strained its managerial and financial systems to meet federal recordkeeping and accounting standards for several funding sources. While the organization implemented the necessary procedures to comply with the standards, officials said that the administrative burdens nearly forced the organization to reduce the scope of its services.

LESSONS MAY BE LEARNED FROM THE EMPOWERMENT ZONE AND ENTERPRISE COMMUNITIES PROGRAM

As you know, the Empowerment Zone and Enterprise Communities program allowed communities to request waivers to certain federal requirements. In addition, the President established the Community Empowerment Board to, among other things, assist with the implementation of the program. In their applications for this program, the 293 urban applicants made over 1,100 requests for federal program flexibility covering 17 different federal departments and agencies. The Community Empowerment Board first responded to flexibility requests from the 12 urban communities that received the bulk of the funding under the program. According to HUD--which administers the urban portion of the program--the 12 communities made 270 waiver requests of which 115 could not be approved because statutory changes would be needed. Favorable action was taken on approximately 130 of the waiver requests, and about 25 requests were still under consideration as of September 20, 1995. Since then, the staff have begun to analyze the requests from the remaining communities and to look at other ways agencies might meet the needs of the communities whose requests would

³Economic Development Programs (GAO/RCED-95-251R, July 28, 1995).

require a statutory change, according to HUD officials. HUD found that the waiver process was time consuming and resource intensive because:

- .-- Localities often lacked enough knowledge about federal programs to define the regulatory relief sought. For example, many of the requests submitted were relevant to state rather than federal agencies. Others were requests for assistance that could be resolved through dialogue between the appropriate federal, state, and local agencies to work through perceived impediments. Provision of the technical assistance required to resolve these requests was staff-intensive for the agencies involved.
- Although the Community Empowerment Board was established to manage interagency cooperation, the majority of agencies have no formal process for reviewing and granting waivers. Some agencies lack global authority to grant regulatory waivers; others have authority but must formally issue new regulations before granting any waivers. Authority to make decisions may be vested in the field in some agencies or at central headquarters in others, adding to the time- and staff-intensive nature of the process.

In light of the lessons HUD has learned from its experience with the Empowerment Zone and Enterprise Communities Program, we would like to lay out some questions that could be asked in considering the proposed Local Empowerment and Flexibility Act of 1995. The questions are as follows:

- What kind of process will allow the flexibility plans to be approved and waivers to be granted in a timely manner while allowing the affected agency or agencies time to consider and process the requests?
- How will waiver requests that cut across federal agencies be approved and monitored? This question becomes more troublesome if funds from various federal programs are co-mingled.
- How can accountability for the funds and programs affected by the waivers be built into the process without being overly burdensome for the localities? If performance standards in the flexibility plans prepared by the localities are not specific enough, it will be difficult to determine the waivers' impact and to ensure that program goals are achieved and funds adequately safeguarded.

-- What level of resources will be necessary to administer the provisions of the proposed act? Several agencies would face a time/resource burden similar to the one they face under the Empowerment Zone and Enterprise Communities Program. In an era of downsizing, where will these resources come from?

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Mr. Chairman, this completes my prepared statement. I would be pleased to respond to any questions that you or Members of the Committee may have.

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