Uncle Sam's Rusty Toolkit

How Proven State and Local Reforms Can Make Federal Economic Development Programs Better for Taxpayers, Workers *and* the Environment

by

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Greg LeRoy & Philip Mattera

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Good Jobs First
1616 P St. NW Suite 210
Washington, DC 20036
202-232-1616
www.goodjobsfirst.org

Executive Summary

An analysis of five of the most common economic development programs funded by the federal government finds that they largely fail to measure up to best practices established by many states and cities. Despite well-established reforms across the country to create good jobs, provide more accountability to taxpayers, and make growth more environmentally sustainable, Uncle Sam's toolkit looks antiquated by comparison.

At a time when federal deficits and competing budget priorities will force every federal program to be scrutinized for waste and ineffectiveness, these and other economic development programs will be vulnerable unless they can be made state of the art. That can only be achieved by drawing from the past 20 years of best practices by states and cities, where a broad but little-noticed reform movement is demanding new rules, and where the most public officials are responding with bold new policies.

The federal programs, chosen because they are large and commonly used throughout the nation, include: the Department of Housing and Urban Development's Community Development Block Grant program; the Department of Labor's Workforce Investment Act; the Department of Commerce's Public Works and Economic Development Program; Industrial Revenue Bonds as allowed under the Internal Revenue Code; and the Department of Agriculture's Business and Industry Guaranteed Loans Program.

The state and local innovations through which we evaluate the federal programs are: Disclosure and Transparency (online reporting of costs and benefits); Job Quality Standards (market-based wage and healthcare requirements); Clawbacks and Rescissions (to recapture or cancel subsidies if a recipient does not make good on commitments); Public Transportation Choice (steering more worksites to transit corridors); and Green Building Standards (requiring new or existing buildings to meet Leadership in Energy and Environmental Design, or LEED, benchmarks or other equivalent green building standards that reflect best practices in the building and construction industry).

These best practices enable taxpayers to become engaged in community revitalization, promote good permanent jobs that can support working families, and safeguard taxpayer investments against fraud and abuse. They also reduce global warming air pollution and save money by giving more commuters the choice of public transportation and by reducing energy use and greenhouse gas emissions at workplaces.

For all these reasons, the federal government can ill afford to continue spending billions of dollars a year in job subsidies guided by program rules that often date back decades. Given how much the U.S. economy is changing—with major shifts now afoot in energy, housing and transportation markets—these findings strongly suggest that Uncle Sam needs to pull out his rusty toolkit and take some lessons from the states and cities.

We conclude that when it comes to investing in job creation, federal agencies are well behind the curve in embracing safeguards to ensure good jobs, curb global warming and encourage civic engagement in revitalizing America's economy. As federal policymakers review programs anew, they should draw upon the established precedents among states and localities to sharpen Uncle Sam's tools.

Uncle Sam's Rusty Toolkit: Summary of Findings

	HUD: Community Development Block Grants	Labor: Workforce Investment Act	Commerce: Public Works & Economic Development	Tax Code: Industrial Revenue Bonds	USDA: Business & Industry Loan Guarantees
Online Disclosure of Costs and Benefits	*General program data and lists of government recipients, along with limited outcome data.*	*General program data and lists of state government recipients.*	*Recipients and $ only, no job or wage promises, no outcome data.*	*Official Statements (prospectuses) for bond issues are online, but with limited job data.*	*Basic recipient data only.*
Job Quality Standards	*None for permanent jobs. Prevailing wage on construction jobs only.*	*Difficult to apply given breadth. Voluntary use of "self-sufficiency standards" may help. OJT wage-suppression safeguard.*	*None for permanent jobs. Prevailing wage on construction jobs only.*	*None in federal rules. A few states add their own.*	*No standards. Weak wage preference.*
Clawbacks and Rescissions	*Yes for non-compliance, but local enforcement is a question mark.*	*Yes for outright fraud; some regional boards extend scope.*	*None*	*None*	*None*
Public Transportation Choice	*None*	*None*	*None*	*None*	*None*
Green Building Standards	*None*	*Not exactly applicable, but Green Jobs Act of 2007 authorized up to $125 million for training re: energy efficiency and renewables (funds not yet appropriated).*	*No building standards. Recently began devoting some funding to climate-friendly projects.*	*Generally none, but Congress has authorized a $2 billion demonstration program.*	*None*

Introduction: Why this Study? Why Now?

With the Obama administration and a new Congress soon to take office, 2009 will present a fresh opportunity for the overhaul of federal economic development programs. We believe it is both necessary and urgent to do so for several reasons. Obviously, budget pressures impel such an analysis: with the Wall Street bailout raising spending and the economic recession reducing revenues, the federal government needs to re-examine everything it does to make programs more cost-effective.

Federal economic development policy has always lagged that of states and localities in embracing basic accountability safeguards such as Disclosure (online transparency), Job Quality Standards (wage and healthcare rules) and Clawbacks (or money-back recapture provisions if a recipient fails to make good on a commitment).

The federal government is also lagging behind the most forward-looking policies that have been adopted by some state and local governments in requiring recipients of economic development subsidies to address climate change issues. While federal agencies are following their state and local counterparts in embracing green building standards for public facilities, much more needs to be done to get those standards applied to private facilities that the public sector helps to fund. A similar push is needed to encourage developers to locate those facilities near public transportation routes.

The core message for all levels of government—especially Uncle Sam—is this: you have terrific dormant powers within already-enacted incentives to positively influence the nation's economic growth. You should not rush to create—and can likely ill afford—new tax breaks or other subsidies. Just overhaul your existing economic development toolkit to:

- Embrace transparency and promote greater civic engagement;
- Adopt Job Quality Standards and promote good jobs that provide pathways out of poverty and strengthen the middle class;
- Protect taxpayers by requiring that monies be clawed back or subsidies be rescinded if a recipient fails to make good on a commitment;
- Reduce global warming air pollution and energy costs and create opportunity for carless workers by promoting transit-accessible workplaces; and
- Boost demand for "green economy" skills and jobs in energy efficiency and conservation by favoring green building practices in both new and existing facilities.

Making Economic Development Greener & More Accountable: Defining Our Terms

This study examines five major, representative federal economic development programs through the lenses of five state and local innovations:

Web-Based Disclosure: About two dozen states disclose company-specific data about economic development subsidies on the web.[1] There is wide variation in the quality and quantity of this disclosure, but we see movement in the direction of greater transparency. The best practice is to provide annual, company-specific reporting of costs (the source and value of the subsidy) and the projected and actual benefits (jobs, wages and benefits as they were promised and have actually been delivered).

At the federal level, legislation enacted in 2006 (co-sponsored by Senators Obama and Coburn) created the USA Spending website (www.usaspending.gov), where all federal contracts and grants are supposed to be visible. The site makes it possible to generate lists of recipients for the grant and loan programs (though not the bonds) analyzed in this report, but there are two problems. First, for grants that flow through state and local governments, only the government agency is currently shown (a subgrants feature is being developed). Second, only the amount of the grant is shown. There is no information on projected or actual job creation, wage or benefit levels, or other public benefits. In other words, the site is a decent starting point for disclosure but needs much more detail.

Job Quality Standards: Akin to the Living Wage movement which originally focused on procurement rather than economic development, at least 43 states, 45 cities and 5 counties have attached Job Quality Standards to at least one incentive, and in some cases to all those above a certain dollar value. The standards set floors on wages, healthcare benefits, and/or hours of work. The best of them (about half) are market-based: that is, they are tied to median wages in the region, industry or occupation (with a Living Wage floor that ensures against poverty-level wages).[2] The economic development theory behind such rules is quite simple: a subsidy is not "economic development" if it serves to undercut living standards or prolong poverty.

Informing this widely embraced safeguard is growing public concern about "hidden taxpayer costs" at subsidized employers. That is, a growing number of public officials realize that some employers pay so little that employees and their families need social safety net programs to subsist. That's why, for example, nearly half the states have now disclosed the names of companies with the greatest numbers of enrolled beneficiaries in programs such as Medicaid and the State Children's Health Insurance Program (SCHIP).[3] Similarly, many public officials believe such employers do not merit economic development assistance.

Clawbacks and Rescissions: States and cities began adopting these rules and contracts in the late 1980s and early 1990s, when plant closings promoted a spate of litigation. Numerous communities sued companies, alleging that by accepting economic development incentives, the companies had incurred a contractual obligation to stay. Although the abandoned communities lost most of these cases, they and many states scrambled to enact laws to prevent embarrassing recurrences; about 20 states and many dozens of cities have them in statute and/or contract boilerplate.[4]

Clawbacks, or recapture provisions, require that a company repay a subsidy (or a prorated portion) if within a set time it fails to deliver promised benefits (usually job creation and/or capital investment). Rescissions are a related device; in the event of a shortfall, the subsidy is rescinded going forward (e.g., a 10-year property tax abatement might be rescinded in the third year). A variation is the recalibration, wherein the terms of a subsidy (e.g., the rate of interest, the percentage of property tax reduction) can be made less generous if a recipient does not deliver on a commitment. That is, if public benefits fall short, private benefits are trimmed accordingly.

Public Transportation Choice: Economic development incentives are increasingly implicated in land-use disputes involving suburban sprawl and its attendant ills of traffic congestion, air pollution, and concentrated poverty. The underlying problem is that economic development incentives—both federally and state-enabled—have always existed in a separate "policy silo" from land use and transportation planning.[5]

In response, a handful of states and a modest number of cities have begun to retool some or all of their programs so that employers have an incentive to locate jobs in already-developed areas, or even more explicitly in transit corridors where commuters have the choice to use public transportation. Officials who have led these efforts consider them to be "triple bottom-line" winners, serving: the Economy (because they keep taxes down by making more efficient use of infrastructure); the Environment (because they reduce Vehicle Miles Traveled); and Equity (because they make more jobs accessible to people who cannot afford cars, and they are disproportionately people of color).[6]

Green Building Standards: The U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) standards have emerged as benchmarks for building new or retrofitting existing structures to greatly reduce greenhouse gas emissions and thereby combat global warming, while creating good jobs in career-track occupations. Other standards, reflecting best practices in the building and construction industry, also are being developed. With rising energy prices, the financial self-interest of property owners could not be clearer. Harvard University, for example, reported in 2007 that its internal revolving loan fund for retrofitting buildings to the LEED-EB (or Existing Building) standard was generating a 35 percent return on investment.[7]

Reflecting the zeal with which cities and counties are embracing sustainability, a modest number have begun to either require LEED as an eligibility condition for an incentive, or they are giving preferential treatment (e.g., expedited permitting) to LEED-certified projects.[8] By doing so, these localities are helping to create more demand for the skills and products, and overall labor intensity, used in green buildings (new or retrofitted), and thereby helping to reduce the cost differential while, of course, also helping the environment.

Rusty Tool # 1: U. S. Department of Housing and Urban Development Community Development Block Grants

CDBGs are large, multi-purpose annual grants to cities and states from HUD.[10] At about $4 billion in FY 2008, they are one of the largest pots of federal money used in economic development.[11] Enacted in 1974 and in and out of favor ever since, CDBGs suffered funding cuts during the 1980s and again in the 2000s. They are an oft-cited barometer of declining federal aid to cities. Because of their flexibility, size and ubiquity, CDBGs offer an enormous opportunity for federal influence in development practices everywhere.

CDBGs are officially intended to promote development by providing decent housing and public amenities, and by helping to create and retain jobs. CDBGs are granted primarily to local governments, which in turn may use them to fund public goods such as infrastructure or schools, rehabilitation of private or public buildings, acquisition of property for public purposes, or commercial revitalization.

Public improvements and housing (or "community development") receive the largest shares of CDBG support; "economic development" projects (i.e., those involving for-profit entities that are not housing), account for about nine percent of total outlays.[12] For such projects, CDBG monies can pay for infrastructure improvements such as sewer lines, water mains, rail spurs, roads and ramps leading up to a facility, enabling it to handle more production or traffic.

CDBGs are allocated by city and county elected officials and their development agencies. By law, at least 70 percent of the funds must benefit low- and moderate-income residents (generally defined as members of a family earning no more than 80 percent of the area median income).

Related to CDBG is the Section 108 loan guarantee program, which allows a city (or other CDBG fund recipient) to put up as much as five years' worth of CDBG money as collateral for a commercial loan to support larger economic development and housing projects. A city applies to HUD for the loan, and HUD secures a private loan and allows the city to guarantee it with future CDBG monies. If the project is successful, the loan is repaid by the proceeds from the business activity, local property taxes, or proceeds from the sale of land or rehabilitated property. But if the projected revenues fall short or if the business fails, the city's CDBG grant will be used to pay the loan.[12]

CDBG Safeguards: Mostly Missing

Web-Based Disclosure of Costs and Benefits: The national HUD website reports on the allocation of grants to each state and the specific eligible communities in each state.[13] In addition, a basic list of government recipients can be found on the USA Spending website. Each state and community must report back to HUD annually on how the funds were used. The HUD website includes links to summary accomplishment data (including some job creation/retention numbers, but none specific to companies) provided by each jurisdiction.[14] Summaries of projects funded by Section 108 loan guarantees are posted on the HUD website.[15]

The detailed annual reports are not posted on the HUD website, nor are they necessarily put online by the various jurisdictions. It is thus difficult to identify which non-profit or for-profit companies (known as "subrecipients") are benefiting from CDBGs or what the job-creation or other benefits may be.

Indeed, community groups in many cities have found CDBG reporting so vague they have trouble assessing basic issues such as whether the 70 percent low- and moderate-income benefit has been met. There are also fairness issues when funds flow to upscale areas or to projects promoted by politically-favored developers. And the 70 percent "low-mod" requirement can play out perversely when CDBG monies aid projects in areas that are currently poor, but the projects themselves fuel gentrification.

Job Quality Standards: CDBG rules are silent on the quality of permanent jobs created or retained with their assistance. Regarding temporary construction jobs, like other federal infrastructure-funding programs, CDBGs require contractors to pay prevailing regional wages, in accordance with the Davis-Bacon Act. (There is an exception for residential rehabilitation projects of fewer than eight units.)[16]

Clawbacks and Rescissions: If a recipient of CDBG funds has "failed to comply substantially" with the rules, the HUD Secretary is empowered to terminate or reduce payments, or refer the matter to the Attorney General, who may bring a civil action to "recover the amount of the assistance…which was not expended in accordance with [the rules], or for mandatory or injunctive relief."[17] However in practice, such events appear to be rare and unlikely to be triggered unless an aggrieved party presses a "horror story."

Public Transportation Choice: CDBGs' long list of official purposes includes "a more rational utilization of land and other natural resources," but the program does nothing intentional to even encourage, much less require, that the worksites or commercial districts or housing it subsidizes are accessible via public transportation.[18]

Green Building Standards: CDBGs are also officially intended to support "the conservation of the Nation's scarce energy resources, improvement of energy efficiency, and the provision of alternative and renewable energy sources of supply."[19] In other words, they could be used to sharply stimulate green building practices. But again, there are no specific provisions that even give preference to, much less require that, CDBG-backed projects use LEED or other benchmarks to reduce greenhouse gas emissions.

Other Safeguards: To their credit, CDBGs have both a job mandate and a subsidy cap: they must create or retain at least one full-time-equivalent permanent job for each $35,000 of funds expended, and assistance may not exceed $50,000 per full-time-equivalent permanent job created or retained. If the main purpose of the project is not jobs, alternatively it must "provide goods or services to residents of an area, such that the number of low- and moderate-income persons residing in the areas served by the assisted businesses amounts to at least one low- and moderate-income person per $350 of CDBG funds used" and may not exceed $1,000 per low- and moderate-income person to whom goods or services are provided.[20]

Rusty Tool #2: U. S. Department of Labor Workforce Investment Act

WIA is the 1998 successor law to the Job Training Partnership Act and several other federal employment training programs.[21] Administered under DOL's Employment and Training Administration and funded annually at about $3 billion, it has three primary program areas: economically disadvantaged adults, dislocated workers (the largest), and youth. As the nation's largest and most integral source of funding for job training, WIA has great potential to promote accountability.

WIA funds are distributed by a formula (based on unemployment rates, poverty rates, population size, etc.) to the states, which in turn allocate them by formula to local Workforce Investment Boards (WIBs), the governing bodies which then contract with One-Stop Centers and with training providers. There are about 650 state and local WIBs.[22]

WIBs must be composed at least 51 percent (and chaired by) business representatives, along with representatives of unions, educational institutions, community-based organizations and representatives from various other federal programs.[23]

WIA emphasizes the creation of "one-stop" facilities in which diverse kinds of jobseekers can access a wide range of employment-related services. Some services such as job search assistance are available to all, while more intensive individualized help is limited to those who are long-term unemployed or employed in a job that does not allow for self-sufficiency. Individuals most typically obtain training services by using vouchers linked to Individual Training Accounts set up for them by the WIBs. A 2005 GAO report found that about 40 percent of local WIB funds were used to obtain training services.[24]

Web-Based Disclosure of Costs and Benefits: The USA Spending website provides data on the grants given to state agencies. Each state WIB maintains its own list of eligible training providers from which individual program participants can use their Individual Training Account funds to obtain training.[25] However, WIA rules do not call for any trainer-specific or employer-specific disclosure of costs or benefits.

Job Quality Standards: WIA's main purpose is not job creation, but rather the training of workers. So the relevant job-quality issues are: how well does WIA help low-income workers qualify for and obtain jobs with better wages and benefits; how well does WIA help workers who are dislocated from good jobs sustain or recover their standards of living; and how well does WIA support people on the job as they seek to keep gaining new skills and climb career ladders?

That is, given WIA's programmatic range, there is no "one size fits all" way to apply Job Quality Standards to it. Tensions abound within the law's implementation (as with predecessor programs), often reflecting the frustrations of inadequate funding. They also reflect the fact that labor markets vary greatly, and it can be hard for any training program to look good within a depressed job market. These tensions can affect who gets served and how outcomes get reported. Regarding who gets served, there are chronic problems with "creaming," or helping those workers who already have the greatest likelihood to succeed (e.g., younger, more educated, etc.). Similarly, quickly placing workers into even low-quality jobs can enhance reported placement rates. On reporting, the law tells WIBs to measure "earning gains," but such gains are difficult to measure and some states and localities would prefer to report "average wages" instead. But then, reporting on a dislocated worker (who used to make $25 an hour) who now makes $15 an hour looks better as an average wage than it looks as a 40 percent earnings loss.

For the purpose of determining who is eligible to receive WIA services, each WIB sets a "self-sufficiency standard" (which as described under WIA itself should not be confused with a Job Quality Standard). Each WIB defines its own self-sufficiency standard, but it can be no lower than the Lower Living Standard Income Level (LLSIL) calculated by the Bureau of Labor Statistics.[26]

Many WIBs have recognized that using the LLSIL deprives too many workers of valuable training services. A 2003 survey of more than 80 WIBs in 45 of the largest metro areas, conducted by the AFL-CIO Working for America Institute, found that two-thirds had established self-sufficiency standards higher than LLSIL rates.[27] Similarly, a 2006 survey of more than 100 local WIBs by Wider Opportunities for Women (WOW) and the National Association of Workforce Boards found 46 percent using higher-than-LLSIL standards.[28] (WOW has created a national set of its own Family Economic Self-Sufficiency Standards for diverse policy uses.[29])

More broadly, both the AFL-CIO and WOW surveys also found that some WIBs are integrating higher self-sufficiency standards into programmatic aspects of their work, such as evaluating job-placement performance, targeting industries for sectoral strategies (which may or may not satisfy one's job quality goals, depending upon the industry targeted), and negotiating with employers on customized training and on-the-job training services.[30] Such uses of self-sufficiency can thus help promote job quality, but they are voluntary and not widely adopted.

Finally, WIA includes two rules that seek to deter wage suppression. Individuals who are put in on-the-job training must be compensated "at the same rates, including periodic increases, as trainees or employees who are similarly situated in similar occupations by the same employer and who have similar training, experience and skills." As well, participants in WIA program cannot displace existing employees, and WIA activities may not impair collective bargaining agreements.[31]

Clawbacks and Rescissions: The fact that so many WIBs have already adopted more full-bodied clawbacks and recalibrations (the workforce development profession obviously being influenced by economic development peers) suggests it would be feasible to adopt a federal rule making those practices mandatory for all WIBs.

Public Transportation Choice: WIA lacks even intent language about helping to create economic opportunity for transit-dependent workers, nor does it suggest WIBs should target transit-accessible employers. (We also note that occupations within the transit industry, such as operators and mechanics, are among those that are especially "grey" and face big skilled-labor shortages due to "baby boom" generation retirements, presenting a terrific opportunity for training and placement in very steady and self-sufficient employment.)

Green Building Standards: The original WIA legislation also lacks any intent language about helping workers qualify to participate in the emerging "green economy" of green building, renewable energy, or energy efficiency. However, the Green Jobs Act of 2007, part of the Energy Independence and Security Act, amends the Workforce Investment Act by authorizing up to $125 million in funding for energy efficiency and renewable energy worker training programs. The focus is to be on training for jobs relating to industries such as energy-efficient construction and retrofitting, renewable electric power and biofuels.[34] The authorization has not yet received funding from Congress.

Rusty Tool # 3: U. S. Department of Commerce Public Works and Economic Development Program

Enacted in 1965, PWEDA seeks to promote economic development in regions experiencing chronic or sudden economic distress. Administered by the Economic Development Administration (EDA) of the Department of Commerce, the program partially funds (with state matches) the construction of public infrastructure to encourage capital investment and job creation.

The Act, as amended in 2004, targets industrial parks, including land acquisition and improvements, engineering, construction, and expansion or improvements, including machinery and equipment. The industrial parks are intended to attract new or expanded facilities to create permanent jobs or "primarily benefit the long-term unemployed and members of low-income families."

The program also allows for grants to communities for "economic adjustment," that is, for areas hurt by job dislocation due to military base closures, trade-related factory shutdowns, or natural disasters. Eligible areas must have: per capita income of 80 percent or less than the national average; an unemployment rate at least 1 percent higher than the national average; or experienced or be about to experience a special need arising from severe changes in economic conditions.

The public works and economic adjustment grants currently are funded at about $200 million a year. Direct grant recipients include state and local government entities, which may "redistribute the funds in the form of a subgrant" to other public entities, or in the case of economic adjustment grants, to "public and private entities [but not for-profit ones] in the form of a grant, loan, loan guarantee, payment to reduce interest on a loan guarantee, or other appropriate assistance."

Web-Based Disclosure of Costs and Benefits: The EDA's annual report, which is online, lists individual grants by state, naming the recipient and specifying the dollar amount of the grant.[35] Given the fact that the money goes to public and non-profit entities for public infrastructure, it does not include data about permanent private-sector jobs to be created or wages to be paid. Similar information is available on the USA Spending website.

Job Quality Standards: The Act is silent on the quality of permanent jobs to be created by private employers who benefit from PWEDA-subsidized industrial parks or economic adjustment-related infrastructure projects. Like other federal programs that fund infrastructure construction, the law does require contractors to pay prevailing regional wages, in accordance with the Davis-Bacon Act.[36]

Clawbacks and Rescissions: The law has no explicit provision for clawbacks or rescissions. Like any federal grant program, grantees are subject to audits and criminal penalties for making false statements or embezzlement.[37]

Public Transportation Choice: PWEDA's rules are silent on geography beyond their broad eligibility criteria. Industrial parks are typically located in exurban or rural areas along major state highways or Interstates, so they are virtually by definition auto- and truck-oriented.

Green Building Standards: The program does not require private-sector construction within subsidized industrial parks to meet green building standards. However, we note that EDA has announced plans to use a small amount of PWEDA funding to "assist eco-friendly projects" under the auspices of the Global Climate Change Mitigation Incentive Fund. This covers "projects that seek technologies and strategies which employ the principles of reduced energy consumption, reduced harmful gas emissions and sustainable development." EDA allocated $9.4 million for such projects in FY 2008.[38]

Rusty Tool # 4: Internal Revenue Service Industrial Revenue Bonds

IRBs (also known as Industrial Development Bonds, or IDBs) are a "tax expenditure" authorized under the federal Internal Revenue Code. In short, the federal government forgoes income tax revenue in order to lower the cost of capital for certain economic development activities. The federal rules governing IRBs are a floor, not a ceiling; some states add additional safeguards.

State and local development authorities issue IRBs (also known as private activity bonds) on behalf of private borrowers, and the bonds are purchased by private investors. Conducting this transaction through government entities makes the interest exempt from federal taxation (and usually state taxation as well). Because wealthy individuals and companies that buy the bonds will accept lower interest when such income is tax-free, IRBs offer interest rates that are typically about three-fourths those of taxable commercial bonds.

There are IRB caps per company ($40 million aggregate nationwide) and per state. Typically, half of the volume cap is allotted to state agencies and the other half is allotted to local government entities within the state.

Small Issue IRBs are restricted to the construction, expansion, or renovation of manufacturing facilities. They are generally limited to $1 million, but under certain circumstances can go up to $10 million. According to the Council of Development Finance Agencies, about $3.1 billion in small issue IRBs were issued in 2007.[39] Lost federal tax revenues were about $350 million for FY 2007.[40]

Exempt Facility IRBs have no size limits, but they can be used only for specific types of projects, such as water and sewer facilities, electricity and natural gas facilities, and certain types of rental housing. (Facilities such as stadiums, convention centers, and parking garages are usually excluded.) These bonds result in an additional federal revenue loss of about $2 billion a year.[41]

Web-Based Disclosure of Costs and Benefits: State and local government issuers of IRBs publish a prospectus (known as an Official Statement) for each offering that includes financial information on the bond. These are available via the Electronic Municipal Market Access (EMMA) database of a regulatory agency called the Municipal Securities Rulemaking Board.[42] The Official Statements contain little information on job creation or quality. In addition to EMMA, a handful of states disclose at least some IRB data online. A 2007 survey by Good Jobs First found that the District of Columbia, Nevada, Pennsylvania, and Wisconsin do so. The quality of these websites varies greatly, with Pennsylvania and Wisconsin the best.[43]

Job Quality Standards: While some states attach job creation and/or Job Quality Standards to projects using IRB funding, the federal tax code governing IRBs has nothing in this respect. Research by Good Jobs First finds that California, New Mexico, North Carolina, and Ohio attach Job Quality Standards to temporary construction jobs and/or permanent jobs on varying kinds of IRB-financed projects.[44]

Clawbacks and Rescissions: Given the remarkable fact that federal IRB rules do not require any job creation or retention, they also lack any clawback language tied to jobs. IRB default rules resemble those of other kinds of loans, emphasizing repayment and technical compliance.

Public Transportation Choice: Federal IRB rules are silent about the geography of their distribution.

Green Building Standards: Federal IRB rules are generally silent on the environmental quality of the construction financed by these tax-free bonds. However, the 2004 American Jobs Creation Act included a provision that authorized state and local governments to issue up to $2 billion in private-activity bonds for qualified green building and sustainable design projects.[45] To qualify, a project must meet various criteria, including LEED certification.

Other Issues: Because IRBs are loans, there is a presumption of capital investment. However, in the event that an IRB is used to help modernize a facility, it may actually have the effect of reducing jobs through automation or process improvements. This fact underscores the value of deriving other public benefits from IRB-financed projects.

Rusty Tool # 5: U.S. Department of Agriculture Business and Industry Guaranteed Loan Program

The B&I program is intended to promote jobs in rural communities by guaranteeing "quality loans" for projects with "lasting community benefits" (not marginal loans or troubled banks). Borrowers may be corporations, cooperatives, partnerships, individuals or public entities.

Eligible businesses must: 1) Provide employment; 2) Improve the economic or environmental climate; 3) Promote the conservation, development, and use of water for aquaculture; or 4) Reduce reliance on nonrenewable energy resources by encouraging the development of solar energy and other renewable energy sources. Loans may be used for business acquisitions, conversions or modernizations, and for the purchase of land, buildings, equipment or inventory.

USDA negotiates the share of the loan it will guarantee on a case-by-case basis, up to 80 percent for loans of $5 million or less, 70 percent on loans of $5 million to $10 million, and 60 percent for loans exceeding $10 million. The maximum loan amount USDA will guarantee is normally $10 million, with special waivers as high as $40 million. Collateral is required.

In FY 2007, USDA provided 390 guarantees on loans worth about $837 million, or an average of about $2.1 million. California had by far the most with 50, followed by Oregon and North Carolina with 26 each.[46]

Web-Based Disclosure of Costs and Benefits: USDA publishes an annual report with statistics on its rural development business programs, but it does not include a list of recipients of B&I loan guarantees.[47] Such a list is available on the USA Spending website, but it has no job figures.

Job Quality Standards: B&I rules have no requirements concerning the quality of either temporary construction jobs or permanent jobs. However, its application system does give preference to projects according to the wage rate (among other criteria). In a scoring system with a maximum of 100 points, five points are given when the average wage exceeds 125 percent of the federal minimum wage, and ten points when it exceeds 150 percent.[48] With the federal minimum wage currently at $6.55, that would be an hourly wage of $9.83 or just $20,436 annually for full-time work, barely above the poverty line for a family of four. In other words, a marginal wage rate is given a small preference weighting.

Clawbacks and Rescissions: Although the first stated purpose of the B&I program is to provide employment, it has no specific job creation or retention rules, so there are no clawback provisions for projects that fail to achieve their job goals. USDA does track B&I job numbers: in FY 2007 it estimated 4,104 jobs created and 8,239 retained.[49]

Public Transportation Choice: B&I rules have no criteria that would favor worksite access via transit, which is not surprising, given the program's rural focus. However, one eligible activity is "transportation services incidental to industrial development."[50]

Green Building Standards: B&I rules are silent on the environmental quality of the construction the program supports. The program's purposes include improving the "environmental climate" in rural communities, but that vague phrase is not further defined.[51]

Policy Conclusion: Uncle Sam Needs a Crash Course on Accountability

As the experience of states and cities proves, there are very specific ways that economic development programs can be sharpened so that they deliver good jobs for workers and better results for taxpayers and communities. To a small degree, some of these state and local reforms have begun to take root within federal programs. But with daunting federal budget pressures and a struggling economy, it is urgent now that Uncle Sam take a crash course on accountability and sharpen all of his tools.

Although there are some structural differences among the programs examined here, there are also enough recurring similarities that suggest clear methods. We recommend:

Standardized Web-Based Disclosure Systems: The existence of some disclosure within the USAspending.gov website is a good platform upon which to build. However, the system needs to drill down further to local projects; it also needs to include information about outcomes.

In programs such as CDBG or B&I where information about sub-grantees or loan recipients is critical to determine a program's effectiveness, federal agencies should promulgate standardized web-based reporting system that covers not just costs but also benefits—that is, jobs actually created, wages paid and benefits provided as specific projects play out over time. The data should be updated annually; semi-annually would be preferable. Most critically, these disclosure templates must be standardized in content and format across the different cabinet agencies so that the costs and benefits of different programs can be meaningfully compared and so that projects within the same jurisdiction can also be compared.

Job Quality Standards: The existence of prevailing construction wage rules within two of the five programs is laudable, but standards for permanent jobs—the enduring benefits that matter most—are weak or non-existent. The fact that some states already attach Job Quality Standards to Industrial Revenue Bonds indicates federal rules could be altered to do the same in every state.

Consistent with the definition and intent of economic development, we recommend that all federal economic development programs be retooled with market-based Job Quality Standards. That is, wage levels should be equivalent to those paid in the same overall labor market, or within the same industry or occupation in that labor market (with a Living Wage anti-poverty floor), so that employers are not being subsidized as they pull living standards down or prolong poverty. Similarly, health care benefits should be required. We also recommend federal experimentation in attaching other high-road employment practices such as lifelong learning regimens.

Clawbacks and Rescissions: It should go without saying that a recipient that defrauds or violates a program should be subject to recapture and other penalties; that is true of any public expenditure, not just economic development. But when it comes to programs for jobs, there should also be clawbacks and rescissions for recipients that fail to create jobs, pay wages, provide benefits, and/or invest capital as promised in project applications.

The lack of clawbacks we found reflects the remarkably low bars for public benefits in some federal programs: it's hard to peg a clawback to job creation when the program doesn't require any jobs be created. Therefore, to sharpen programs this way, some will have to be recast with explicit job-creation missions. In some cases, such as IRBs that may help to automate a workplace, at the very least job retention standards need to be applied. And for WIA, at least for projects involving on-the-job training and customized training, there should be clawbacks applied to wage levels.

Public Transportation Choice: In this category, Uncle Sam went 0 for 5. Breaking down the silos between transportation planning and economic development will involve inter-agency and inter-program work (not simply programmatic reform), and there is a very modest amount of state experience available as guidance. However, we note that in 2009 there will begin the every-five-years debate over reauthorization of the Surface Transportation Act, which provides federal funding for both highways and public transportation. That debate will offer a new opportunity for fresh experimentation in using federal transportation dollars to promote transportation choice, by creating intentional linkages between transit and federally-subsidized job creation.

We also note that President-elect Obama has stated his interest in creating a White House office of metropolitan affairs, explicitly intended to better coordinate various federal programs so that they more effectively serve entire labor markets. The Surface

Transportation Act debate presents an immediate opportunity for such an office. In addition to the anti-poverty and climate change benefits of making more jobs transit-accessible, there is a very real "business climate" issue here. That is, in some metro areas such as Chicago (where Chicago Metropolis 2020 has led this debate[52]), large employers are essentially saying: "there is little benefit to being in a big, skilled labor market if traffic congestion means that only a small fraction of the workers are actually available to each of us. In future site location decisions, we will favor places where our employees will have the transit choice so that we can enjoy fuller access to the labor market."

Green Building Standards: The growing public consensus about the need for action on climate change—and President-elect Obama's frequent call for five million new jobs in the "green economy"—make this an especially attractive reform. We also note that some federal agencies, including the General Services Administration and even some Defense agencies, have made substantial progress greening federal properties, so this is hardly a new idea for federal economic development programs.

While the new $2 billion IRB demonstration project is laudable, green building standards should be more than an experiment in federal development codes when they have become so widely accepted in the private sector. We recommend that green building standards—using LEED standards or other composite green building standards relevant to particular segments of the construction industry—become mandatory and integral to everything in the built environment that the federal government subsidizes. That is, such rules should cover private construction that is directly aided, and they should also extend to private construction within federally subsidized projects such as factories within industrial parks aided by B&I. The use of such standards, and related training, is very relevant to new workforce entrants and incumbent workers who represent a valuable resource for the installation, operation and maintenance of emerging technologies. As well, green jobs skills development should become an explicit goal of WIA, with the local WIBs' community audits encouraged to identify and target opportunities in renewable energy and energy conservation.

Endnotes

[1] Philip Mattera et al., *The State of State Disclosure: An Evaluation of Public Information About Economic Development Subsidies, Procurement Contracts and Lobbying Activities*. Good Jobs First, November 2007, online at: http://www.goodjobsfirst.org/pdf/statedisclosure.pdf.

[2] Anna Purinton et al., *The Policy Shift to Good Jobs: Cities, States and Counties Attaching Job Quality Standards to Development Subsidies*, Good Jobs First, November 2003; online at: http://www.goodjobsfirst.org/pdf/jobquality.pdf.

[3] See a summary of the state disclosures online at: http://www.goodjobsfirst.org/corporate_subsidy/hidden_taxpayer_costs.cfm.

[4] See more on Clawbacks at: http://www.goodjobsfirst.org/accountable_development/reform2.cfm.

[5] See, for example, Greg LeRoy and Allison Lack: *The Geography of Incentives: Economic Development and Land Use in Michigan* (Good Jobs First, December 2006; online at: http://goodjobsfirst.org/pdf/michiganlanduse.pdf) and Greg LeRoy and Karla Walter: *The Thin Cities: How Subsidized Job Piracy Deepens Inequality in the Twin Cities Metro Area* (Good Jobs First, December 2006; online at: http://www.goodjobsfirst.org/pdf/thincities.pdf).

[6] The states are: Maryland (with its 1996 Smart Growth Act); Illinois (with its 2005 amendments to its Economic Development in a Growing Economy program); California (with its 2000 amendments to the California Infrastructure and Economic Development Bank's Infrastructure State Revolving Fund Program application process); and New Jersey (with its 2008 Urban Transit Hub Tax Credit Program).

[7] http://www.greencampus.harvard.edu/newsletter/archives/2007/05/green_campus_lo_3.php

[8] http://www.usgbc.org/ShowFile.aspx?DocumentID=2021

[9] For more details, see: http://www.hud.gov/offices/cpd/communitydevelopment/programs/

[10] Source for funding figure: http://www.whitehouse.gov/omb/budget/fy2009/pdf/apers/crosscutting.pdf (p.108).

[11] U.S. Government Accountability Office, *Community Development Block Grants: Program Offers Recipients Flexibility but Oversight Can Be Improved*. Washington, DC, July 2006, p.13; online at http://www.gao.gov/products/GAO-06-732

[12] For more details, see http://www.hud.gov/offices/cpd/communitydevelopment/programs/108/index.cfm

[13] Links to 2008 spreadsheets for each state can be found online at: http://www.hud.gov/offices/cpd/about/budget/budget08/

[14] Links to the reports can be found online at: http://www.hud.gov/offices/cpd/communitydevelopment/library/accomplishments/

[15] http://www.hud.gov/offices/cpd/communitydevelopment/programs/108/index.cfm

[16] 42 U.S.C. 5310 (online at http://www.hud.gov/offices/cpd/communitydevelopment/rulesandregs/laws/sec5310.cfm#), The Contract Work Hours and Safety Standards Act, which mandates time-and-a-half for more than 40 hours a week and prohibits hazardous working conditions, also applies, except on residential rehab projects with fewer than eight units. See 24 CFR 570.603 (online at http://edocket.access.gpo.gov/cfr_2007/aprqtr/pdf/24cfr570.603.pdf).

[17] 42 U.S.C. 5311 (online at http://www.hud.gov/offices/cpd/communitydevelopment/rulesandregs/laws/sec5311.cfm).

[18] 42 U.S.C. 5301 (online at http://www.hud.gov/offices/cpd/communitydevelopment/rulesandregs/laws/sec5301.cfm)

[19] Ibid.

[20] 24 CFR 570.209 (online at http://edocket.access.gpo.gov/cfr_2007/aprqtr/pdf/24cfr570.209.pdf).

[21] Links to the legislation and regulations can be found at: http://www.doleta.gov/usworkforce/wia/act.cfm

[22] http://www.nawb.org/

[23] 29 U.S.C. 2832 (online at http://law.onecle.com/uscode/29/2832.html)

[24] U.S. Government Accountability Office, *Workforce Investment Act: Substantial Funds Are Used for Training, but Little is Known Nationally about Training Outcomes*. Washington, DC, June 29, 2005, p.3; online at http://www.gao.gov/products/GAO-05-650

[25] The Employment and Training Administration discloses the recipients of some WIA-related direct discretionary grants it provides, including the President's High Growth Job Training Initiative (the grantee database is available online at: http://www.doleta.gov/BRG/HGJTIGrantees/) and the President's Community-Based Job Training Grants, which go to community colleges (the grantee database is available online at: http://www.doleta.gov/BRG/CBJTGrants/).

[26] http://www.dol.gov/eta/regs/fedreg/notices/99012217.htm

[27] *Off to a Good Start: A Report on High Road Workforce Investment Board Policies and Practices*, AFL-CIO Working for America Institute, 2003, p.4; available online at http://www.workingforamerica.org/documents/PDF/GoodStart.pdf.

[28] *Reality Check: Promoting Self-Sufficiency in the Public Workforce System. A Promising Practices Guide for Workforce Boards. Wider Opportunities for Women*, 2006, p 4; available online at http://www.wowonline.org/resources/documents/WOWRealityCheck.pdf.

[29] Information on WOW's standards online at: http://www.wowonline.org/ourprograms/fess/index.asp.

[30] Ibid., p.5. *Off to a Good Start*, op cot, p. 5.

[31] 29 U.S.C. 2931 (available online at http://law.onecle.com/uscode/29/2931.html).

[32] 29 U.S.C. 2842 (available online at http://law.onecle.com/uscode/29/2842.html).

[33] *Off to a Good Start*, op. cit, pp. 5-6.

34 P.L. 110-140, Title X, Section 1001-1002.

35 See the 2007 EDA Annual Report grant list starting on page 39 at: http://www.eda.gov/ImageCache/EDAPublic/documents/pdfdocs2008/2007annualreport_2epdf/v2/2007annualreport.pdf.

36 42 U.S.C. 3212 (available online at http://law.justia.com/us/codes/title42/42usc3212.html).

37 42 U.S.C. 3215 (available online at http://law.justia.com/us/codes/title42/42usc3215.html).

38 http://www.eda.gov/ImageCache/EDAPublic/documents/pdfdocs2008/single_5fapplication_5fedap_5fffo_5ffinal_2epdf/v1/single_5fapplication_5fedap_5fffo_5ffinal.pdf

39 http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/2007volumecap.html/$file/CDFA%202007%20National%20Volume%20Cap%20Report.pdf

40 http://www.whitehouse.gov/omb/budget/fy2009/pdf/apers/receipts.pdf (p.291).

41 Ibid. This is the total of private-activity-bond tax expenditures for energy facilities; water, sewer and hazardous waste disposal facilities; rental housing; and airport, docks and similar facilities.

42 EMMA can be found at http://emma.msrb.org. A fuller archive of Official Statements can be found on commercial services such as Thomas Municipal Market Monitor (http://www.tm3.com/tm3home/).

43 Phil Mattera et al., *The State of State Disclosure*, op cit.

44 Anna Purinton et al., *The Policy Shift to Good Jobs*, op cit. Good Jobs First private research memo on prevailing wages, February 4, 2004.

45 P.L. 108-357, Section 701 (online at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_public_laws&docid=f:publ357.108.pdf). The IRS Notice on the bonds is online at http://www.irs.gov/pub/irs-drop/n-05-48.pdf.

46 http://www.rurdev.usda.gov/rbs/pub/BPAReport07.pdf (p.29).

47 Ibid.

48 http://www.rurdev.usda.gov/CA/pdf%20files%20and%20documents/BI%20priority%20scoring%20sys.pdf

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50 CFR 4279.113 (online at http://vlex.com/vid/19923495).

51 CFR 4279.101 (online at http://vlex.com/vid/19923471).

52 See Chicago Metropolis 2020's "Metropolis Principles," as announced in 2001 at http://www.chicagometropolis2020.org/documents/metropolisprinciplesFINAL.pdf. More than 100 of the Chicago area's largest employers signed these Principles, saying they will give strong preference to the availability of transit and affordable housing in future site location decisions.