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IN FOCUS

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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 or income levels,
- the *labor force participation rate* (the percentage of the whole population that is either employed or unemployed but actively looking for work),
- the *unemployment rate* (the percentage of the *labor force* that is unemployed),
- the employment rate (which in this In Focus means the *employment-to-population ratio* (EPOP), or percentage of the whole population that is employed), and
- the *prime-age employment gap* (PAEG, calculated as the difference in percentage points between (1) the national five-year average prime-age (25-54) EPOP and (2) the five-year average prime-age EPOP of the eligible area),

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's Economic Development Administration (EDA). It also includes considerations for Congress regarding the EDA's criteria. This report does not cover the EDA's new Distressed Area Recompete Pilot Program, which was enacted under the Stevenson-Wydler Technology Innovation Act of 1980, as amended (15 U.S.C. §3701 et seq.). For additional information on identifying areas of economic distress, see CRS Report R48059, *Identifying Areas of Economic Distress: Examples and Considerations*.

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 or median household income**—the area has a per capita or median household 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 1% greater than the national average unemployment rate;
- **Labor force participation**—the area has a labor force participation rate that is 90% or less of the national average or a PAEG of 5% or more; EDA has previously noted that the PAEG "accounts for prime-age workers who have stopped looking for jobs and left the labor force, not just those who are currently unemployed";
- **Expected economic dislocation and distress**—the area is expected to experience actual or threatened severe unemployment or economic adjustment problems from energy industry transitions; or
- **Special Need**—the area "has experienced or is about to experience a special need arising from actual or threatened severe unemployment, underemployment, 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) and certain Workforce Training funding shall serve areas that meet one or more of the economic distress criteria (42 U.S.C. §3161(a)). EDA may also consider the criteria in the Critical Supply Chain Site Development grant program.
- Areas that meet certain thresholds of the economic distress criteria may qualify for reduced cost-sharing responsibilities in some EDA programs. Generally, EDA funds 60% 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 non-disaster 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. PWEDA specifies that communities with populations under 10,000 must meet one or more of the distress criteria to be considered "small." Small communities may receive increased federal cost-share rates.
- Economic distress criteria are also used to designate Economic Development Districts (EDDs), which are multi-jurisdictional entities that assist with regionally

driven economic development planning processes. 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 certain 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. Bureau of Economic Analysis, Census Bureau, and the Bureau of Labor Statistics (BLS) are generally the primary sources used to measure economic distress (42 U.S.C. §3161(a)(c)).

- **Low per capita or median income** may be determined by data from the Census Bureau's most recent American Community Survey (ACS);
- **Unemployment rates** may be determined by the most recent data published by the BLS's Local Area Unemployment Statistics (LAUS); and
- BLS provides **labor force** data.

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. The circumstances for distress qualifying as a special need are specified in legislation, regulations and funding notices. EDA reviews the evidence of special need provided by applicants. For EDA purposes, designations of economic distress may change at different intervals because unemployment rate data are updated monthly and per capita income data are updated annually.

How Are EDA Project Areas Determined?

EDA directs applicants to self-define project areas geographically and 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).

Statutory Changes to Distress Criteria

The Economic Development Reauthorization Act (EDRA) of 2024 (P.L. 118-272) reauthorized EDA and amended PWEDA. Prior to the changes, PWEDA specified per capita income, unemployment rate, and special need as the three economic distress criteria. EDRA added median income, PAEG, labor force participation rate, and expected impacts due to energy industry changes as options for the criteria.

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. As of publication, EDA has not released a tool for the new criteria authorized by EDRA. 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

If Congress wants to provide flexibility in how project areas may be designated, policymakers may seek to provide options for alternative criteria. In considering potential additional changes to the criteria, Congress may also evaluate the level of agency discretion involved in determining economic distress. Congress may examine if data for potentially new criteria are available for small geographic units and how frequently are they updated. If data are not available, Congress may review whether to provide one or more additional options for areas to qualify. 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., 49 U.S.C. §47109).

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. Some analysts note that different criteria may illuminate distinct types of economic challenges and that certain areas may be considered distressed by one criterion yet not distressed by another criterion.

Congress may seek to evaluate the impact of EDRA's changes to economic distress criteria in PWEDA, such as whether and how the eligibility of areas may narrow or expand based on criteria selected. Congress may review how the PAEG criteria affect the eligibility for areas that may not otherwise qualify based on other measures. For example, an outside analysis of the PAEG showed that a five-point threshold expanded the number of counties that may be considered distressed, yet not all such counties were also high-poverty counties. Congress may also consider whether and how the geographic distribution of grant awards may change following EDRA's enactment.

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