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Jenna Fagan
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The Life and Death of UDAG: An Assessment Based on Eight Projects in Five New Jersey Cities

Ingrid W. Reed
Princeton University

The federal Urban Development Action Grant program, begun in 1977, provided $5 billion over eleven years revitalizing severely distressed urban places through the encouragement of private sector investment. Designed to assist commercial, industrial, and housing projects that "but for" the federal grant would not be built, the program was characterized by a streamlined grant-making process administered by finance and development experts. Eight UDAG projects in five New Jersey cities, first studied in the proposal stage in 1979 and revisited in 1987, show that the UDAGs succeeded in attracting development to these hard-pressed cities. Although the projects succeeded, the program was unable to arrest the more general distressed conditions of the cities. During the Reagan years, the administration sought to end the program. Congress supported it, but reduced the funding each year. In an effort to gain support for the program, eligibility requirements were broadened to include more localities. These efforts failed, and in 1988 Congress did not fund the program. Despite its demise, UDAG is recognized as having stimulated urban revitalization and having created a new model for private sector and public sector collaboration in economic development.

In 1977, in what has been called "a fit of sanity,"[1] an ambitious and creative federal program was launched by Congress for the purpose of revitalizing distressed cities. Since then, federal spending for the Urban Development Action Grant program (UDAG) amounted to $4.9 billion for more than 3,300 projects having a total project value of $35 billion.[2] More than 500,000 new permanent jobs were created at a cost of $8,086 in direct UDAG expenditures per new job.[3] In 1988, however, Congress took the "oh-so-rare step of killing a costly federal program that has provided great political advantage to many members of Congress."[4]

To provide insight into the paradox of a program that ultimately lost political acceptability in the federal arena despite its reported accomplishments

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[1]Richard P. Nathan and Jerry A. Webman, eds., *The Urban Development Action Grant Program, Papers and Conference Proceedings on Its First Two Years of Operation* (Princeton, N.J.: Princeton Urban and Regional Research Center, 1980), p. 9.

[2]U.S. Department of Housing and Urban Development, *1988 Consolidated Annual Report to Congress on Community Development Programs* (Washington, D.C.: U.S. Government Printing Office, 1988), p. 50.

[3]Ibid., p. 61.

[4]*New York Times*, 30 June 1988, p. 17.

and popularity, this article describes the program's development, unique features, and influence. It examines eight examples of how the UDAG program was implemented locally and draws lessons from them about the program's successes and failures.

The eight case studies were originally developed in November 1979 for a national conference on the UDAG program held at Princeton University's Woodrow Wilson School of Public and International Affairs.[5] The cases were selected as a small sample of the 500 approved projects at that time, "not a statistically rigorous sample . . . but to show a mix of cities, different kinds of projects and program issues."[6] The eight grants, totaling $27 million, were awarded to five cities in New Jersey: Salem for a small electronics plant; Morristown for a parking garage in a mixed-use project; New Brunswick for a hotel; Paterson for a housing complex and several small manufacturing enterprises; and Newark for a new office building, a converted brewery facility, and two modest industrial businesses.

At the time of the conference, the projects had only recently been approved by the U.S. Department of Housing and Urban Development (HUD) and were therefore in the early implementation stage. Eight years later, in the summer of 1987, the projects were revisited to determine if they had lived up to expectations—of the UDAG program, the cities, and the developers—and how the UDAG program was perceived as influencing the urban environment and urban policy.

BACKGROUND OF THE UDAG PROGRAM

By the mid-1970s it was no longer possible to avoid the fact that the postwar building boom that created countless tract houses in new suburban areas was also drawing jobs and retail activity away from nearby large and small cities, leaving them with declining populations and financial resources.

The administration of President Jimmy Carter confronted two broad issues in devising new policies to counter these urban problems. One was how to assist poor individuals and families remaining in the cities. The other was how to reverse the loss of jobs and tax revenues in central cities.

A series of specific urban policies was developed under the leadership of Patricia Harris, Secretary of HUD.[7] The UDAG program, enacted into law as part of the Housing and Community Development Act of 1977, addressed the second issue of economic revitalization. UDAG provided a form of government intervention to deal with perceived market imperfections in economically disadvantaged cities. UDAGs were designed to provide the difference, or the "sweetener" as it is sometimes known, between a profitable and a nonprofitable project that might contribute to revitalizing a distressed city.

[5]Nathan and Webman, *The Urban Development Action Grant Program*, pp. 3–83.
[6]Ibid., p. 25.
[7]Erwin C. Hargrove, "The Politics of Public Goods," *Leadership in the Modern Presidency*, ed. Fred I. Greenstein (Cambridge, Mass.: Harvard University Press, 1988), p. 244.

When Ronald Reagan was elected in 1980, with what was interpreted as a conservative mandate to cut the federal budget and reduce federal taxes, UDAG was on a list of "low priority programs" designated by David Stockman, director of the Office of Management and Budget.[8] Stockman argued for the elimination of UDAG not only to reduce the budget, but also because he believed that federal revitalization programs did not work. Lessons from such programs as urban renewal, training programs, and model cities in his own depressed hometown in Michigan had caused him to observe, "When you have powerful underlying demographic and economic forces at work, federal intervention efforts designed to reverse the tide turn out to have rather anemic effects."[9]

The person who is credited with shaping the UDAG concept, Robert Embry, HUD assistant secretary,[10] would probably argue that UDAG, based on a successful urban revitalization strategy in Baltimore, was different from the programs Stockman viewed as failures.

INNOVATIVE FEATURES OF UDAG

Many aspects of UDAG are now widely accepted in urban redevelopment strategies; when introduced in 1977, however, they were new. The statute stated that the primary objective of the program was "the development of viable urban communities . . . selected on the basis of their relative severe distress."[11] Applicants for assistance were required to "describe a concentrated urban development action program . . . to take advantage of unique opportunities to attract private investment."[12]

The absence of private investment was seen as a key characteristic distinguishing distressed cities from more affluent suburbs. As one New Jersey developer put it, "Most development going on is not in the cities. It's in the suburbs. Land is cheaper, highways are better, and that's where the tenants seem to want to be. Like any industry, the real estate industry is basically going to do what its market tells it to do."[13]

Private Commitment

Enlisting the private sector, including real estate developers, was central to the revitalization strategy in the UDAG program. HUD regulations re-

[8]William Greider, *The Education of David Stockman and Other Americans* (New York: E. P. Dutton, 1981), p. 156.
[9]Ibid., p. 12.
[10]Neal R. Peirce, "Why UDAGs Will Be Missed by Many Cities," *National Journal*, 30 July 1988, p. 1984.
[11]U.S. Congress, *Amendment to Housing and Community Development Act of 1974*, P.L. 95-128, 1977.
[12]Ibid.
[13]Lecture of Robert Powell, Woodrow Wilson School of Public and International Affairs, Princeton University, 4 November 1985.

quired a firm private-sector commitment to a project before grant funds could be awarded, a fundamental principle distinguishing the Action Grant program from previous revitalization efforts.[14]

Distress Criteria

The process for obtaining a UDAG first required the city to meet three of six distress criteria: low per capita income, high percentage of population in poverty, high unemployment rate, low population growth, low job growth, and aging housing stock.[15] Limiting aid only to those cities meeting the distress criteria meant that most of the northeast-midwest rustbelt cities were eligible, while the sunbelt cities were excluded. Over the life of the program, the distress criteria were broadened. A larger set of cities became eligible for aid particularly through the "pockets of poverty" provision. Those cities with a large concentration of low-income people in a particular part of the city, even if the city as a whole did not meet the distress criteria, were now eligible.[16]

"But For"

Once eligible, a city received a UDAG only if it presented a project, devised jointly with a private-sector entrepreneur, that could not otherwise be accomplished without the UDAG subsidy.[17] As David Cordish, the first director of the UDAG office explained, "The mayor of the city . . . has to state that but for the infusion of public money the deal would not go forward. The private sector must also certify that it will not make this particular investment at this location but for the action grant. We simply call these our but-for certifications."[18]

Leverage

Special attention was given to the impact of the "sweetener" that would make the deal work. Projects were reviewed for their ability to generate private investment, known as the leveraging power. Early in the program, some grants leveraged only one private dollar for each action-grant dollar, but the ratio was more often two and one-half dollars to each action-grant dollar.[19] The 1987 UDAG annual report indicated that over the life of the program, one UDAG dollar stimulated 6.5 dollars of private investment.

Although the program did not begin with a fixed ratio of private to public

[14]U.S. Department of Housing and Urban Development, *First Annual Report, Urban Development Action Grant Program* (Washington, D.C.: U.S. Government Printing Office, June 1979), p. 4.

[15]Ibid., p. 6.

[16]U.S. Congress, *The Housing and Community Development Amendments of 1979* (H.R. 3875), P.L. 96-153, 1979.

[17]HUD, *First Annual Report*, p. 8.

[18]Nathan and Webman, *The Urban Development Action Grant Program*, pp. 9-10.

[19]Ibid., p. 9.

dollars,[20] the private dollars raised per UDAG dollar awarded grew over the years of the program, and officials pointed with pride to the large number of private dollars generated by the program. However, as one skeptical New Jersey urban policy official pointed out, if a project needed only one dollar in seven to make it move forward, did it really meet the "but for" clause?[21]

Job Creation

Projects also were assessed on their ability to create jobs, particularly for low- and moderate-income people and minorities. HUD also judged projects on the basis of their potential contribution to the tax base and their ability to improve economic conditions in the city.[22] Early in the program, total jobs was the most important consideration. As the program evolved, urban activists succeeded in placing more emphasis on the number of new jobs created for poor and minority residents.

Project Flexibility

Many types of projects were eligible for funding—commercial, industrial, and residential. UDAGs were used in a variety of ways, such as to purchase land, rebuild or construct infrastructure, and subsidize interest rates.[23] If a grant was structured as a loan, the repayment went to the city. Cities could reuse this money, though HUD required that they continue to spend the loan repayments for development purposes. Consequently, UDAG not only made specific projects possible, but also permitted cities to have a federally financed, revolving-loan program for other neighborhood and economic development projects.

Accelerated Processing

The decisionmaking process for UDAGs was designed with private-sector needs in mind. For developers, "time is money." HUD adopted regulations that could accommodate developers. For example, the agency permitted project reviews to take place on a quarterly cycle, apparently unheard of in other federal programs.[24]

Private-Sector Staff

The Washington UDAG office was staffed by people skilled in the business of development.[25] Review teams included economic analysts, lawyers, and former bankers. Their tasks were not only to assess the projects but also to

[20]Ibid.

[21]Interview with Paul Bardach, Governor Kean's Urban Policy Advisor, Trenton, N.J., 7 July 1987.

[22]HUD, *First Annual Report*, p. 23.

[23]Ibid., p. 7.

[24]Nathan and Webman, *The Urban Development Action Grant Program*, p. 8.

[25]Ibid., p. 11.

provide assistance to city staffs to "improve the quality of applications and increase the likelihood of funding for feasible projects."[26]

Competitive Grants

The UDAG decisionmaking process was not only precise, professional, and prompt, but it was also competitive. About 50 percent of the projects submitted were funded.[27] Grant applications from large cities were separated from those from small cities and categorized by types of projects. For example, housing proposals did not compete with commercial proposals.[28] A UDAG grant became a source of great pride for a city. Simply "winning" a UDAG gave cities a boost and created a sense of optimism. Members of Congress announced each UDAG award. In Lewiston, Maine, the ringing of church bells heralded the announcement of a UDAG to that city.[29]

THE NEW JERSEY CASE STUDIES

Capsule descriptions of the New Jersey cases present a picture of the type of projects funded by UDAG, illustrate some of the problems and opportunities presented by the grant, and examine attitudes toward the UDAG program by those who implemented it in local areas.[30] (See Table 1 for summary information about the projects).

The results of the eight New Jersey UDAG projects to a large extent mirror the results of the 1982 HUD study described by Paul Gatons and Michael Brintnall.[31] In the national study, only 11 percent of the approved projects were terminated, while all eight of the New Jersey projects were implemented. Project impacts were measured by number of jobs created and local revenues raised. The HUD study concluded that 77 percent of the original jobs estimated could be expected to be created. Five of the New Jersey cases did better and three performed less well. Since estimated revenues were not part of the application process when the New Jersey projects were approved, it is not possible to compare them with the national study, but all New Jersey projects are paying taxes. In the HUD study, about one-fourth of the cities had arranged for loan repayments, while seven of the eight New Jersey projects included this feature, and six of those were repaid on schedule.

[26]HUD, *First Annual Report*, p. 9.
[27]Paul K. Gatons and Michael Brintnall, "Competitive Grants: The UDAG Approach," *Urban Economic Development*, eds. Richard D. Bingham and John P. Blair (Beverly Hills: Sage, 1984).
[28]HUD, *First Annual Report*, p. 9.
[29]Lecture by Nathaniel H. Bowditch, Maine Commissioner of Economic Development, Princeton University, Princeton, N.J., 16 September 1988.
[30]Information is drawn from the case studies prepared for the 1979 Woodrow Wilson School UDAG conference, from interviews conducted by Ingrid Reed and Kenneth Simpler in June-August 1987, and from material in the files of the HUD Regional Office, Newark, New Jersey.
[31]Gatons and Brintnall, "Competitive Grants: The UDAG Approach," pp. 133–137.

Gaton and Brintnall point out that UDAG was not designed simply to leverage private dollars but to stimulate economic recovery in distressed areas. "The real test . . . is whether a successful project can . . . help sustain spinoff investment and local capacity for self-development necessary to continue revitalization."[32]

Jerry Webman put emphasis on the latter, more elusive outcome, pointing out that "further assessments of the UDAG program must take account of three aspects of the program: UDAG as subsidy, as symbol, and as process."[33] These three aspects are evident in the eight New Jersey case studies.

Salem

Salem is a small, Delaware River port town of about 7,000 people in southern New Jersey. A $170,000 UDAG enabled Salem to offer a low-interest loan to Wire-Pro, a modest electronic assembly firm considering expansion in a nearby industrial park. The low-interest loan would facilitate its move to larger quarters in an abandoned factory owned by the town. Preparation of the application was a struggle for the inexperienced town leaders. When HUD turned down the original application, town officials resubmitted another application after receiving assistance from the UDAG staff. Once the project was approved, Wire-Pro quickly renovated the space, and over the next few years expanded its operations on the site. For Salem, the 108 jobs located next to its public housing project was an important gain. Wire-Pro's treasurer said that the firm would not have been able to consider the Salem location without the UDAG. Learning from its first experience, Salem's economic development team has improved its port facilities and pursued other projects to lower its unemployment rate.

Morristown

Morristown is located in north-central New Jersey in the midst of prosperous suburban sprawl that disguises the municipality's problems. A $5 million grant was awarded in 1979 to build a parking garage, the missing piece in a proposed downtown mixed-use project. Beginning in the 1960s, the local council had tried to attract a hotel-office-retail complex to an urban renewal site near the town square. Failure to redevelop the area served as a reminder of the difficulty the municipality had competing with its surrounding suburbs, which could offer free parking. Every developer interested in the urban renewal site demanded a parking garage from the city. The UDAG solved the problem by subsidizing a bond issue to finance a garage, which the developer then built as part of the project. Parking fees are repaying the bonds. Despite the fact that the urban renewal site now houses the long awaited mixed-use project, some Morristown citizens are dissatisfied. Black residents were disappointed by the lack of jobs. Parts of their

[32]Ibid., p. 137.
[33]Nathan and Webman, *The Urban Development Action Grant Program*, p. 109.

TABLE 1
Description of Eight UDAG Projects in New Jersey Begun in 1979

Project	Type	Private commitment and value of UDAG	Loan repayment in 1987	Jobs projected	Jobs created	Property tax generated in 1987
Newark						
Balco	Industrial commercial (office complex)	$ 4,500,000 1,000,000	paid off	1,000	510	$ 300,000
Schnoll	Industrial (poultry)	1,984,000 296,000	$115,639 (repayments on schedule)	70	90	$ 29,600
Synfax	Industrial (chemical toners)	1,390,000 290,000	paid off by insurance claim after fire	45	45	$ 29,600
One Washington Park	Commercial (office complex)	31,000,000 10,000,000	includes percentage of profits to city; not yet paid	665	1,732	$ 530,327
New Brunswick						
Hyatt	Commercial (Hyatt Hotel)	14,000,000 6,000,000	paid off	523	354	$ 800,000
Salem						
Wire-Pro	Industrial (electrical manufacturing)	546,000 170,000	paid off	62	108	11,000
Paterson						
Jackson/Slater	Industrial (foundry, boilers, and plastics) and Residential	10,600,000 4,215,000	$ 724,430 (repayments on schedule)	193	68	$ 184,865
Morristown						
Speedwell Ave.	Commercial (Office/hotel, shopping)	40,000,000 5,000,000	grant	2,000	2,000	$ 150,000

SOURCE: HUD Regional Office, Newark, N.J.

neighborhoods were cleared for the urban renewal project. The new law firms and international companies that located in the offices have not brought direct benefits to the former residents. The developer and the elected officials contend that the increased commercial activity in the downtown area has created jobs, increased tax revenues, and brought a sense of vitality to the municipality. The new city manager says that the UDAG gave Morristown a role in the growth of the region and, therefore, benefits all its citizens.

Paterson

Paterson was awarded a $4 million UDAG for the Jackson-Slater project, named for the site of this multi-project development. One part of the grant was used for housing, creating a brick high-rise apartment, and a series of attractive town houses. The grant also helped to pay for the construction of a substantial fence to set off housing from the nearby industry. The principal source of funding for the project came in the form of a loan from the New Jersey Housing Finance Authority. The UDAG also provided low-interest loans to five small manufacturing firms, enabling them to relocate or expand. The owners reported that attractive sites were available in nearby suburbs, but one local manufacturer said explicitly that if the UDAG had not been provided by the city, he would not have known whether the city cared if he stayed or left. On the other hand, the city economic development director says that without the UDAG, there was nothing to offer businesses considered vital to Paterson. The loan repayments from the small firms have proceeded on schedule, adding to the city's redevelopment fund. Paterson's initial experience with UDAG prompted other redevelopment initiatives, including the use of state economic development assistance modeled after the UDAG program, the Local Development Financing Fund (LDFF). The city's economic development director noted that the UDAG application process had become cumbersome and slow, compared to the state program. The city has relied more on LDFF, even though loan repayments are returned to the state and are not retained by the municipality.

New Brunswick

New Brunswick, a modest old city in central New Jersey, needed a hotel in its plans to revitalize downtown in order to complement the new and expanded headquarters of the Johnson & Johnson corporation. Even with the corporate presence, a new hotel was a risky and expensive project. The application for a $6 million UDAG, made by a nonprofit development corporation jointly organized by the city and Johnson & Johnson, was held up by lawsuits challenging the clearance of historic buildings and the relocation of families living on the proposed site. After extensive reviews, HUD approved a proposal that included a 300-room hotel, retail space, and a parking garage. The Hyatt Hotel chain contracted to operate the complex. In 1985, Johnson & Johnson bought out the city's share in the hotel and paid off the UDAG loan. The city in turn used the repaid funds to help underwrite bonds for a new school and leverage a loan for a new—and the only—supermarket in the city. A local civil rights organization has criticized the city's development strategy because it has not benefited residents who need housing and jobs. New Brunswick, however, continued to use UDAGs to attract new projects to the city, even though the regulations added to the regulations in the early 1980s became burdensome. Even so, according to the head of the New Brunswick Development Corporation, it was worth the effort because the repayments of UDAG loans created investment funds for the city that were not available from any other source.

Newark

Newark, New Jersey's largest city, is one of the state's most severely distressed cities. When the four UDAGs included in this study were awarded to the city, it already had a sophisticated economic development office that recognized the potential of UDAGs and sought them actively. Two of the grants encouraged small firms to locate in a newly created industrial park on the extreme edge of the city. Synfax, a manufacturer of chemical toners for copying machines, burned to the ground about three years after beginning operations with a twenty-year, 3 percent loan of $290,000 made possible by a UDAG. The loan was repaid to the city by the insurance company. A neighboring plant, the Schnoll poultry processing operation, now owned by White Rose, employs nearly 100 people. The UDAG supporting Schnoll was similar to Synfax—a $296,000 loan at 3 percent to be repaid over 20 years. In the case of Schnoll, the UDAG leveraged an investment of $2 million. Schnoll indicated that the low-cost loan was not particularly important to the success of his project, but he used it because it was available. The Newark economic development corporation attorney insisted that in 1979 the UDAG money was an essential ingredient in making it possible for Schnoll and others to invest in the new industrial park.

The other two UDAGs awarded to Newark provided opportunities for important initiatives—one for the redevelopment of the site of a failed brewery and the other for a high-rise office structure downtown. The old Ballantine brewery site, known as Balco, was renovated with the support of a $1 million UDAG. The grant helped to refurbish a site known for its abandoned buildings and high crime rate. Nine years after the UDAG, a multipurpose facility for manufacturing, assembly activities, shipping, and storage is thriving. The site is the location for such diverse firms as Easy Pickin's clothing and Barnes and Noble book stores. The original loan was repaid, and additional private investment has improved other nearby buildings for similar uses.

One Washington Park, Newark's first modern office building in a decade, received a $10 million UDAG. This grant paid for slightly less than one-third of the project. Located at the end of Military Park, formerly an impressive small urban park, the project was marked by complicated site acquisition problems and considerable delays in leasing. The original terms of the project included a "kicker" for the city, a 50 percent share of the building profits. Although this part of the agreement has not yet been fulfilled, One Washington Park is fully rented, has been repaying the original loan, and is paying property taxes of more than $700,000 per year. The developer emphasized the importance of the low-cost loan in giving him room to negotiate rents that had to be lower than suburban locations in order to attract tenants. Since the building opened in 1983, several impressive new office structures were added to Newark's skyline. However, the new mayor is focusing economic development efforts on industrial activity in order to create jobs for Newark citizens.

CONCLUSIONS FROM THE NEW JERSEY PROJECTS

This retrospective look at the eight UDAGs awarded in 1979 shows that the projects were carried out as intended. Private investment was attracted to depressed urban areas. Entrepreneurs built their projects and cities obtained benefits from the program, including repayment of the UDAG loans. Jobs were created, although in some cases not as many as projected. New property taxes were generated by the projects. However, in several cities, low-income residents were not satisfied with their gains from the government investment and demanded a more direct benefit from the public subsidy. What can be said about the program as subsidy, symbol, and process?

Subsidy

Reports from public officials and private investors indicate that the subsidy was essential to keeping firms in the cities and to attracting new businesses and developers. The Schnoll poultry company was the exception in the cases reviewed for this study. The Newark official who countered Schnoll's contention that the grant was not necessary to bring the poultry firm into a new industrial park cautioned that enterprises once successful tend to downplay the importance of additional resources in the very early stages of a project.

"Early money" closing the gap between what the developer could raise for the project and the total cost of the project gave the proposal the crucial financing to get started. This is true particularly in the case of speculative development, such as the One Washington Park office building. The UDAG subsidy immediately lowered the cost of the project so that when leasing took place, rent levels were competitive with suburban offices. One Washington Park probably could have been built without a subsidy several years later when the market was stronger. However, the UDAG permitted the development to take place when it did, and the successful project helped to create an office market. The government subsidy influenced the market in favor of distressed places. The project became a symbol of what was possible in Newark.

The New Brunswick Hyatt Hotel project faced a similar situation with an unknown urban market and high development costs because of site clearance

and parking requirements. The UDAG provided both gap financing and financing at a cost lower than what was available from conventional banks. Local officials claimed that the hotel has influenced other development, such as restaurants and shops that have located nearby and may have spurred the creation of an arts center.

Symbol

The "but for" question posed by the UDAG administration referred to more than the need for a financial subsidy. It had symbolic meaning. UDAG generated political support for development. "But for" turned out to be "but for" the support of the political leadership the projects would not go forward. Local elected leaders, once committed to a UDAG project, stood up to citizen opposition and mobilized the bureaucracy to move projects expeditiously. Developers pointed out that the higher costs of development in cities were often associated with local red tape, difficulty in assembling sites, and an entrenched political system dependent on community groups for support. When the city became a partner rather than a regulator, projects apparently moved smoothly. UDAG sealed this partnership.

Another aspect of the symbolic nature of the UDAG program was the importance attached to winning a UDAG grant. Mayors and economic development directors touted their successes. There was the sense of validation that the city is a worthy place as determined by an outside evaluator—the UDAG team in Washington. As UDAG projects were implemented, they became real, not only symbolic, and made the localities more lively and attractive to other businesses. The downtowns of Morristown, New Brunswick, and Newark are better places because of the projects subsidized by the UDAG program.

The successful UDAG projects also acted as beacons to draw developers to the cities. The early UDAGs, such as several of those in this study, went to projects on the drawing boards. Each of the cities subsequently used UDAGs to encourage new projects. Developers who had not worked in cities were willing to consider investing in weak markets with high costs if incentives were provided.

Process

The forced collaboration between the private sector and the public sector to secure federal funds changed the way economic development initiatives were undertaken. The rather vague concept of public-private partnerships became public-private deal-making. The UDAG approach was revolutionary for city planning staffs, as well as for HUD personnel. It required them to know about how developments actually take place, and with that knowledge, enter into negotiations to achieve an acceptable deal. According to the New Jersey UDAG manager, the typical planning department "had no experience in deal-making. Economic development meant zoning changes, demolition, and relocation. Now the staff was required to analyze *pro formas* [financial plans] and get into the development game."[34] The members of the UDAG team in Washington became the coaches for a new way of encouraging economic development. UDAG was the catalyst for teaching cities how to become entrepreneurial in working with entrepreneurs.[35]

DEMISE OF UDAG

Despite its tangible and intangible benefits, appropriations for the UDAG program were eliminated in July 1988. Given that annual UDAG appropriations had declined every year after the high point of $675 million in 1980 and 1981, its end might be viewed as a slow but inevitable death. However, the fact that the program survived 8 years of attack by the Reagan administration meant that the fatal blow at the hands of Congress could be seen as a *coup de grace* rather than a *coup d'etat.*

President Reagan, like David Stockman, considered UDAG as gross spending abuse and questioned the basic UDAG concept that incentives are needed to attract investors to high cost, weak development markets in declining cities. Reagan's comments at the National Association of Counties annual meeting in 1987 capture this attitude:

> The UDAG program, he complained, has provided "millions to build luxury hotels, restaurants and fancy condominiums." On the latter, he quipped, "I barely had time to discover what yuppies were, until Congress began to subsidize them."[36]

In his 1989 budget message, Reagan cited a UDAG to St. Petersburg, Florida, as unnecessary spending and added: "There is no evidence such programs have resulted in new job creation nationwide."[37] Reagan's expectation that the UDAG program would have a broad impact is directly counter to the original intent to focus on the most depressed urban places by carefully targeting the grant funds.

UDAG was terminated despite efforts to broaden the program. The initial eligibility requirements restricted participation largely to localities in the Northeast and Midwest. The inclusion of cities with "pockets of poverty" in 1979 opened the program to additional cities, but many congressional districts still were excluded and consequently their representatives saw little gain in supporting the program. In 1987, in the face of declining annual appropriations (down to $225 million that year), major changes were made to broaden the geographic distribution of the funds. This was achieved by lessening the importance of the distress criteria and increasing emphasis on the expected benefits of the projects.[38]

When the 1989 HUD budget came up for consideration, a GAO report based on four rounds of funding under the new formula showed a slight shift of funds from the regions receiving the majority of the grants to regions previously not included.[39] Based on the accounts of the budget debate when decisions were made about the 1989 HUD budget, the changes in the targeting formula were not sufficient to generate support and may have raised expectations that could not be met.[40]

The HUD budget, of which UDAG was a part, was included in a package with NASA, the Veterans Administration, and fourteen other agencies. In the NASA budget, the continuation of the space station program was a particularly thorny funding issue and came to be seen as an item that had to be traded off for UDAG.[41] When hard choices had to be made to meet the figure approved by a House budget conference agreement, changes in the 1987 UDAG allocation formula were used as a reason to eliminate the program in the budget-cutting exercise.

The *Congressional Quarterly* reported that Neal Smith (D-IA), a subcommittee member "who had supported the [formula] change because it was designed to help states like his, said that it wasn't having its desired effect, anyway, so he supported the cut." Rep. Edward P. Boland (D-MA), chairman of the appropriations sub-committee and a defender of UDAG for years, called UDAG the "lowest priority." In addition, Rep. Bill Green (R-NY), a long-time supporter of UDAG, obviously saw the end in sight and said, "Frankly, I think it's time to call it quits."[42]

The resignation about the death of UDAG can be explained using what Richard P. Nathan has characterized as a two-dimensional bargaining process in federal grants.[43] The horizontal dimension refers to the goals and objectives set out by the program designers in Washington, and the vertical dimension refers to how these goals and objectives are interpreted and carried out by grant recipients. If significant changes occur in either dimension, the successful implementation of the federal program is likely to be in jeopardy.

There were considerable changes at the horizontal level of the UDAG program: the broadened targeting strategy eroded the goal of focusing on the

[34]Interview with Carmen Valenti, HUD Regional Office, Newark, New Jersey, 28 July 1987.

[35]Gloria H. Fitzgibbons, *UDAG, A Public/Private Partnership* (Pittsburgh: Innovations Press, 1982), p. ii.

[36]David Hess, "Reagan Taunts Political Foes to Take Their Best Shot," *The Philadelphia Inquirer*, 14 July 1987, p. A7.

[37]W. John Moore, "Staying Alive," *The National Journal*, 5 March 1988, p. 51.

[38]U.S. Congress, *The Housing and Community Development Act of 1987*, P.L. 100-242, 1987.

[39]U.S. General Accounting Office, *Urban Development Action Grants: Effects of the 1987 Amendments on Project Selection* (Washington, D.C.: U.S. General Accounting Office, January 1989).

[40]Phil Kuntz, "Their Backs Up Against a Wall, Appropriators Give Up UDAG," *Congressional Quarterly*, 18 June 1988, p. 1688.

[41]Phil Kuntz, "Space Station Threatened by Budget Squeeze," *Congressional Quarterly*, 4 June 1988, p. 1532.

[42]Phil Kuntz, "Their Backs Up Against a Wall, Appropriators Give Up UDAG," p. 1688.

[43]Richard P. Nathan, "State and Local Governments Under Federal Grants: Toward a Predictive Theory," *Political Science Quarterly* 98 (Spring 1983): 48–49.

most distressed places and created more competition for the funds; social goals were added that expected the grants to contribute to the well-being of the poor and minorities rather than creating jobs and tax revenues; the funds were cut dramatically, thus limiting the number of grants and the amount of individual grants; the application requirements became more complex and the review time was lengthened, which diminished its appeal to private developers; and the program lacked the philosophical support of the administration.

Information obtained when the UDAG projects were revisited in 1987 can explain changes in the vertical level. Although city officials and local developers were pleased with the results of the UDAG awarded to them, their positive attitudes toward the program weakened as it changed. The limited funds created sharper competition. The more complex and longer review process was perceived as unnecessary and discouraging. Paterson gave up on the UDAG program and put its efforts into securing more accessible state funds, even though the loan repayments went back to the state rather than to the city as would be the case with a UDAG.

The Reagan administration's criticism of grants supporting projects by nationally known firms meant that local officials were placed in an awkward position of justifying subsidies to high quality development, such as the Hyatt in New Brunswick. This was politically risky for both the public and private sector in an atmosphere that also expected greater gains for poor and minority residents.

The consensus of the local officials was that too much was expected of UDAG in light of limited funds and a sluggish review process. They assumed that UDAG had been dismantled and that there was not much hope in reversing the trend—and, by implication, a fight for continuation of the program was not worth the effort. The bargain, as described by Nathan, seems to have come apart. It may well be that the pessimism of those who benefited from the UDAG influenced the congressional supporters of UDAG to give up the fight.

As much as the "bargain" changed, the economic context for the UDAG program also changed. Begun when interest rates were climbing, the program was solidly in place when interest rates soared in the late 1970s and early 1980s. The up-front money and low-cost loans were important to developers when bank loans were prohibitively expensive. As the economic climate improved, interest rates went down, and other sources of funds became available during the last six years of the Reagan administration, UDAGs were not as critical in some cities.

LESSONS FOR FEDERAL POLICY

UDAG demonstrated that federal initiatives can influence the way local governments promote economic development. The concept of providing incentives to spur localities to devise creative development projects with government contributing only a part of the financial resources is now an accepted idea. The concept of leveraging of government funds is now a key element in local economic-development strategy, and the means through which it is accomplished—the business-like, negotiated deal with the private sector—is accepted as well.

The UDAG program also changed urban places. It was able to stimulate development where it probably would not have taken place. Many of the projects spurred by UDAGs have succeeded and, in turn, have spurred other development. The loans made possible by UDAGs, when repaid, provide funds for other new developments in localities. UDAGs appear to have helped parts of some cities turn around, but could not solve the problems of the poor, uneducated, and ill-housed. These problems confronted cities when the UDAG program began, and the new census figures are likely to confirm that distress levels are now as they were when the program began. At the same time, however, UDAG demonstrated how difficult it is for the federal government to allocate development funds to localities in greatest perceived need while simultaneously maintaining political support for the program.