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Why states should step in when local projects miss out on competitive federal grants

Joseph Parilla and Glencora Haskins Wednesday, June 14, 2023

Place-based economic challenge grants offer regional leaders the potential for transformative local investments totaling tens of millions of dollars over several years—if their application is selected. But with hundreds of regions competing for these funds, any individual place has a relatively low probability of winning.

This dynamic characterizes the Economic Development Administration's (EDA) $1 billion Build Back Better Regional Challenge (BBBRC). The program seeks to support the local development of nationally critical industries and technologies in ways that deliver economic opportunity to traditionally undeserved people and communities. Over 500 regional coalitions applied to the competition's first round in October 2021. Out of those, 60 applicants received $500,000 planning grants in December 2021, and later only 21 applicants were awarded implementation grants ranging from $25 million to $65 million in September 2022.

Given those long odds, how can momentum be maintained in regions that go through what can be an arduous planning process yet don't get fully funded? Obtaining support from other funding sources for projects already vetted by federal planning processes is a natural next step—and states are a natural next funding source.

Most commonly, states have provided supplemental investment when EDA implementation grants did not cover the full cost of regional strategies. In fact, recognizing that states had significant flexible economic recovery resources from the American Rescue Plan Act's Coronavirus State and Local Fiscal Recovery Funds (SLFRF), the EDA asked states to upgrade their assistance on BBBRC strategies from letters of support to formal financial commitments during the competition's second phase. As a result, states were primed to support projects the EDA did not end up funding. For instance, Virginia provided $15 million to Activation Capital to expand the VA Bio+Tech Park in Richmond and its biomanufacturing training programs. To support the Fresno-Merced Future of Food Innovation Initiative, California invested $15 million in the Agrifood Technology and Engineering Collaborative for competency-based training programs in local community colleges. And the Oklahoma state legislature approved $50 million in new funding for wastewater improvements at the Robson Ranch industrial site, which Tulsa has prioritized for development of its advanced mobility industry.

What about regions that don't receive any implementation funding at all? Wisconsin is an illustrative case. A coalition led by the Wisconsin Paper Council requested $57 million from the EDA to rejuvenate the region's forest products cluster. Despite not being selected for an implementation grant, coalition leaders decided that they had "something too big to let wither on the vine," as one member told us.

While the lack of federal funding forced the coalition to scale back on the most capital-intensive elements of its strategy, a pending $8.2 million commitment from the state using SLFRF dollars could enable the University of Wisconsin-Stevens Point to expand its capacity, build critical mass, and broaden its technical contributions to the state's forest products cluster. Of the state's total investment, the university has asked for $4 million to support its Wisconsin Institute for Sustainable Technology (WIST), which provides research, development, commercialization, and industry support to companies in the cluster. The remaining funds would support the Advanced Manufacturing, Engineering Technology and Apprenticeship (AMETA) Center at Mid-State Technical College, a training hub in central Wisconsin.

These programming efforts were initially planned as part of the Wisconsin Paper Council's Phase 2 BBBRC proposal. That the EDA had already pre-vetted the project and advanced it to the final round of evaluation was important for state decisionmakers. It also suggests that regional applicants who approach the planning phase of challenge grant competitions with a long-term view are more likely to sustain efforts through new funding.

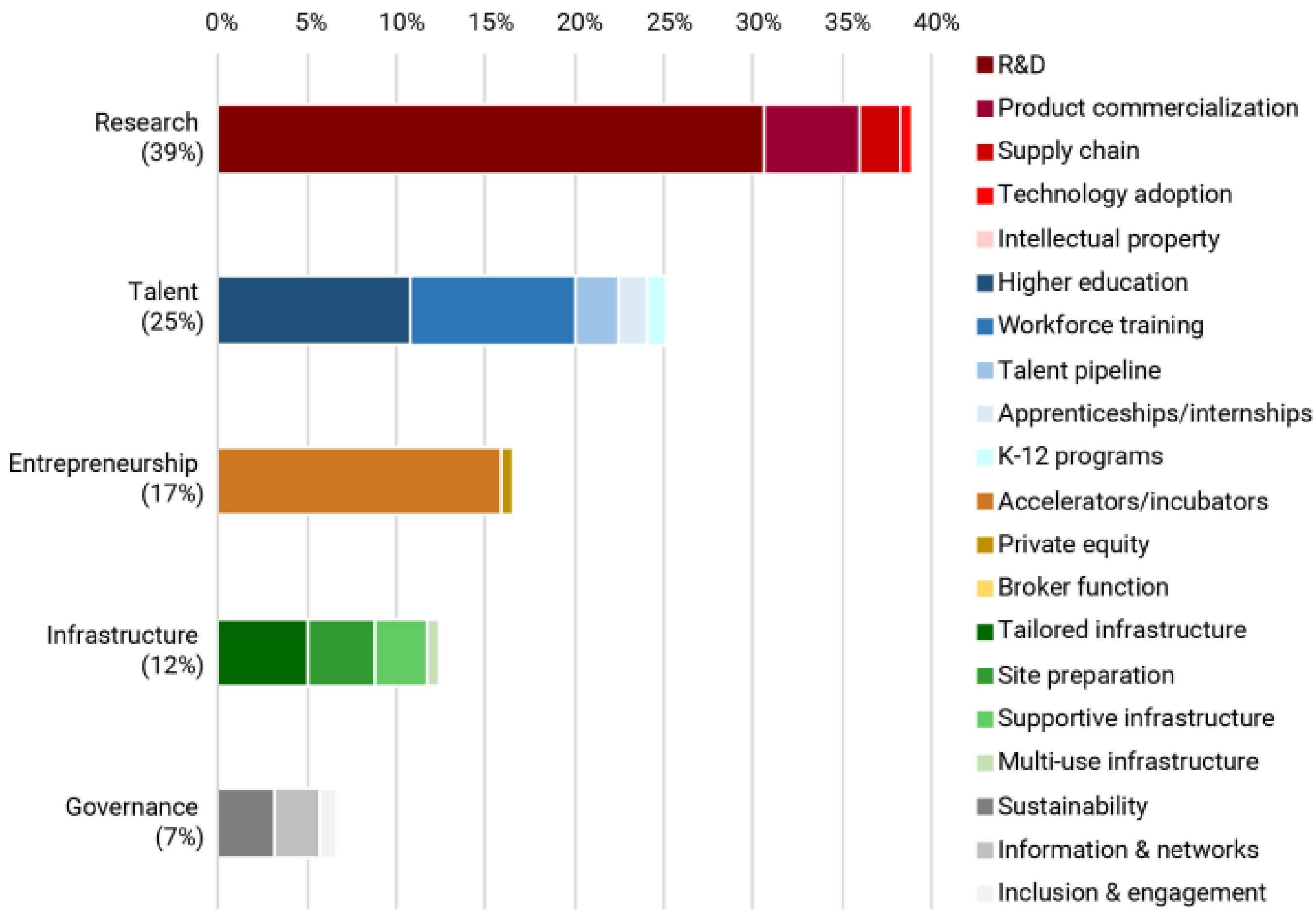
Can Wisconsin be a harbinger of future state investments? In answering that, it's notable that the BBBRC created a surge in state funding commitments to support place-based economic strategies. In Phase 2 of the competition, the EDA requested the 60 finalists to provide matching dollars to complement their federal funding requests. About 22% of matched funding came from state governments, representing a $392 million pledge, according to a Brookings analysis. This surge is significant, considering that until recently, the annual budget of the entire EDA was around $400 million.

For regional leaders, it's important to understand which projects will be most attractive to state investors. State matching commitments to BBBRC proposals, as Brookings inventoried, primarily targeted research and commercialization strategies (39% of commitments), talent development (25%), and entrepreneurial development (17%). Talent development investments were mostly split between higher education degree programming and non-degree workforce training and credentialing, while entrepreneurship investments were almost entirely devoted to accelerator and incubator programs.

While state governments led relatively few Phase 2 projects, states typically invested in these research, innovation, and workforce development strategies via matching funds for projects led by higher education institutions. Among those matches for higher education institutions, states overwhelmingly invested in research universities (65% of matches) over other four-year universities (7%) and community/technical colleges (29%).

FIGURE 1

State commitments to BBBRC strategies prioritized research, product commercialization, and talent development



Source: Brookings Metro analysis of Phase 2 application materials. Figure represents total Phase 2 match commitments made by state governments.

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It is not too late for state governments to support strong but unfunded BBBRC projects. Notably, states have money to spend on equitable economic development strategies; as of this writing, states had yet to appropriate about one-quarter of their SLFRF allocations. The eligible uses for these SLFRF dollars are highly aligned with the BBBRC's objective of generating a robust economic recovery that benefits historically excluded communities. And there may soon be scores of additional planned but unfunded projects, given the rigorous competition for the National Science Foundation's Regional Innovation Engines program and the EDA's Regional Technology and Innovation Hubs program. For state governments looking for well-vetted workforce development, small business, and infrastructure projects to apply SLFRF money toward, unfunded BBBRC strategies are a natural target.

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