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REPORT TO THE CONGRESS

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More Effective Use Could Be Made
Of Program Resources To
Alleviate Unemployment

B-153449

Economic Development Administration
Department of Commerce

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

~~70-1000~~ 096631

MARCH 21, 1972



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-153449

To the President of the Senate and the
Speaker of the House of Representatives

This is our report entitled "More Effective Use Could Be Made of Program Resources to Alleviate Unemployment." Federal participation in this program is administered by the Economic Development Administration, Department of Commerce.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Commerce; the Secretary of Health, Education, and Welfare; the Secretary of Housing and Urban Development; the Administrator, Farmers Home Administration, Department of Agriculture; and the Administrator, Environmental Protection Agency.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

EDA	Economic Development Administration
EPA	Environmental Protection Agency
FHA	Farmers Home Administration
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development

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D I G E S T

WHY THE REVIEW WAS MADE

Because of the substantial expenditure of Federal funds for construction of public works, the General Accounting Office (GAO) reviewed the policies, procedures, and practices of the Economic Development Administration (EDA) for awarding grants and loans.

The primary function of EDA is to create new jobs in areas of substantial and persistent unemployment and underemployment. EDA makes grants and loans to nonprofit entities for public works projects, such as water, sewer, and waste treatment facilities, and for development facilities projects, such as industrial parks and tourism projects.

From its inception in September 1965 through June 30, 1971, EDA awarded grants and loans of \$1.1 billion for the construction of 2,120 public works projects. In addition, 124 applications requesting grant and/or loan assistance of \$66.6 million were pending at June 30, 1971.

FINDINGS AND CONCLUSIONS

In three EDA regions GAO reviewed 150 projects for which grants and loans totaling \$77.7 million were awarded. On the basis of an evaluation of these projects--about 16 percent of the financially assisted projects and 18 percent of the total assistance provided at the time of the GAO review--GAO believes that EDA could use its resources more effectively to alleviate unemployment in economically distressed areas.

Coordination with other available
Federal assistance programs

EDA provided financial assistance to many projects without first determining whether they could have been funded under other programs. Also some of EDA's grants replaced grants and loans previously awarded or tentatively committed for the same projects under other Federal programs.

An interdepartmental agreement for coordinating financial assistance to public works projects among the Departments of Agriculture, Commerce, and Housing and Urban Development and the Environmental Protection Agency assigned EDA the primary responsibility for funding projects in EDA-designated areas when EDA determined that the projects would have significant economic impact.

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GAO believes that EDA's awarding assistance in this manner does not provide adequate assurance that the EDA assistance is not supplanting assistance from other Federal agencies and thus raises the question as to whether the EDA program is being administered in accordance with legislative intent. (See p. 9.)

Benefits to the unemployed or underemployed

For about 14 percent of the projects reviewed, grants of \$10.7 million and loans of \$1.9 million appeared questionable because (1) the potential economic impact of some of the projects on the unemployed and underemployed residents seemed nonexistent or very low, (2) there was inadequate assurance that the project would be completed within a reasonable time, and (3) there was inadequate assurance that construction would start within a reasonable time. (See p. 19.)

GAO believes that EDA awarded financial assistance without an adequate evaluation as to whether the benefits of the proposed projects were realizable. (See p. 19.)

Designation of economic development centers

An economic development center must be geographically and economically situated so that economic growth of the center may reasonably be expected to contribute significantly to the alleviation of distress in the surrounding district. GAO is of the opinion that, of 17 centers reviewed, three, which were provided with financial assistance totaling \$6.4 million, did not meet these requirements. (See p. 31.)

Acceptance of value of
previously acquired assets as
an eligible project cost

EDA's policy permits an applicant, under certain circumstances, to include in project costs eligible for financing the value of assets (such as land, buildings, and equipment) acquired prior to its application for financial assistance. GAO believes that EDA should clarify this policy because

- its regional offices followed different practices for acceptance of the value of previously acquired assets as eligible project costs (see p. 39) and
- one regional office awarded a grant in an excessive amount because it accepted overvalued assets as an eligible project cost. (See p. 41.)

RECOMMENDATIONS OR SUGGESTIONS

2 The Secretary of Commerce should require EDA: 74

- To effectively coordinate its public works financial assistance programs with those of other Federal agencies and to urge the adoption of changes in the interdepartmental agreement, to provide greater assurance that such agencies provide available funds for projects under their programs before EDA provides any financial assistance.

- To establish improved procedures for evaluating proposed projects to provide for a more realistic evaluation of (1) the projected economic benefits to the unemployed and underemployed residents of the redevelopment areas, (2) the economic benefit in relation to project costs, and (3) the timeliness of the economic impact. (See p. 30.)
- To adopt improved criteria setting forth the factors for consideration in determining whether the designation of an economic development center within an economic development district would contribute to the alleviation of distress within the redevelopment areas of the district and to make periodic evaluations of such a designation to determine whether it should be continued or terminated. (See p. 37.)
- To clarify its policy on the acceptance of the value of previously acquired assets as project costs eligible for financing to help ensure uniform application of the policy. (See p. 43.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

EDA disagreed with GAO's recommendation regarding the need for (1) more effective coordination of its public works financial assistance programs with those of other Federal agencies, (2) improved criteria for evaluating proposed projects, and (3) clarification of its policy on the acceptance of the value of previously acquired assets as eligible project costs. (See pp. 48, 55, and 65.)

EDA has an in-house evaluation of economic development centers under way that may result in its reconsideration of criteria for designating centers. (See p. 61.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

2 In GAO's opinion, EDA's manner of awarding assistance does not provide adequate assurance that the EDA assistance is not supplanting assistance from other Federal agencies. GAO believes that EDA's practice raises a question as to whether the EDA program is being administered in accordance with the legislative intent of the act as expressed by the Senate Committee on Public Works. 3-1-50

EDA does not agree that the legislative intent of the act authorizing EDA's financial assistance program requires EDA to determine whether assistance is available under public works programs of other Federal agencies before EDA assistance can be provided.

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CHAPTER 1

INTRODUCTION

The Economic Development Administration of the Department of Commerce makes direct and supplementary grants and loans to public and private nonprofit entities for public works projects--such as water, sewer, and waste treatment facilities--and for development facilities, such as industrial parks and tourism projects. These grants and loans are made for projects located in designated redevelopment areas, economic development districts, and economic development centers.

A redevelopment area generally is a county having high unemployment or underemployment. An economic development district is an area containing at least two redevelopment areas and one economic development center and usually includes one or more counties which are not designated as redevelopment areas. Economic development centers are cities or areas located in a nonredevelopment area of a district whose economic growth reasonably can be expected to contribute significantly to the alleviation of distress in the redevelopment areas of the district.

Economic development districts and economic development centers were formed in order that projects of broader geographical significance might be planned and carried out to foster economic development on a scale involving more than one redevelopment area. Areas, districts, and centers have been designated as eligible for financial assistance under the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3121).

EDA was established pursuant to the Public Works and Economic Development Act of 1965. The act, which became law on August 26, 1965, is an outgrowth of prior economic development legislation, such as the Public Works Acceleration Act and the Area Redevelopment Act, which sought to develop solutions to unemployment and underemployment in the less developed areas of the Nation.

To help these lagging areas, the act authorizes a grant and loan program for public works and development facilities needed to create a climate conducive to the development and operation of private enterprise. The act authorizes also the Secretary of Commerce to make direct and supplementary grants and loans to eligible applicants for public works and development facilities which will (1) tend to improve opportunities for the successful establishment or expansion of industrial or commercial facilities, (2) assist otherwise in the creation of additional long-term employment opportunities in the area, or (3) benefit primarily the long-term unemployed and members of low-income families. The Secretary delegated this authority to the Assistant Secretary for Economic Development.

Financial assistance is available to States or their political subdivisions, Indian tribes, or private or public nonprofit organizations representing areas designated as eligible for assistance under the act. EDA grants and loans to eligible applicants may be used to acquire or develop land and improvements for public works, public services, and development facility use and to acquire, construct, rehabilitate, alter, expand, or improve such facilities, including related machinery and equipment.

The act provides that the amount of any direct grant for a public works and development facility project not exceed 50 percent of total project costs. The act provides also for the award of bonus grants--not to exceed 10 percent of the total project costs--to applicants located in designated economic development districts.

The act authorizes supplementary grants to increase the Federal grant contribution to an amount not to exceed 80 percent of total project costs, except in the case of grants to Indian tribes where the required non-Federal share may be reduced or entirely waived. EDA regulations set forth in the Code of Federal Regulations provide for maximum grant rates of 50, 60, 70, and 80 percent of total project costs, depending on criteria relative to the median family income or unemployment rate within the project area (13 CFR 305.4 (b)(3)).

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The act authorizes also loans up to 100 percent of the cost of public works and development facility projects. Loan assistance, however, may be provided only when funds otherwise are not available on reasonable terms and when there is a reasonable expectation of repayment.

An area receiving EDA grant or loan assistance must have an approved overall economic development program, and the project for which financial assistance is sought must be consistent with such a program. Prospective applicants prepare applications for grants and loans for public works projects with the assistance of economic development specialists at EDA regional offices. The applications are submitted to EDA regional offices where they are reviewed and evaluated to determine whether the proposed projects meet the objectives and requirements of the act and other EDA criteria. The regional offices transmit the applications to the Office of Public Works at EDA headquarters with project evaluations that include recommendations for approval or disapproval.

The Office of Public Works is responsible for making the final review of a project application and for preparing an evaluation and recommendation memorandum which sets forth the justification for recommending approval or disapproval of the project. When approved, the memorandum serves as a basis for preparing an action memorandum which is submitted to higher EDA management officials for review. Formal award of financial assistance is made by the Assistant Secretary for Economic Development. After the award EDA monitors the construction phase of the project and approves the acceptance of the completed project by the grantee-borrower.

Prior to August 1970 EDA activities were conducted at its headquarters in Washington, D.C., and at seven area offices located in Portland, Maine; Wilkes-Barre, Pennsylvania; Huntington, West Virginia; Huntsville, Alabama; Duluth, Minnesota; Austin, Texas; and Seattle, Washington. Each of the area offices was headed by an area director who was responsible, within the limits of his delegated authority, for carrying out EDA programs in the area.

In July 1970 the area offices were redesignated as regional offices and the offices located in Portland and

Wilkes-Barre were closed and an office was established in Philadelphia, Pennsylvania, to serve the Atlantic Region. In August 1970 the office in Duluth was closed and an office was established in Chicago, Illinois, to serve the Midwestern Region.

In September 1971 EDA announced a realignment of its regional offices. The offices in Huntsville and Huntington were closed, and offices were established in Atlanta, Georgia, and Denver, Colorado, to serve the southeastern and Rocky Mountain regions.

From its inception in September 1965 through June 30, 1971, EDA approved 2,120 public works projects involving the award of grants of \$954.1 million and loans of \$131.8 million. (See app. I.) At June 30, 1971, 124 applications requesting grant and/or loan assistance of \$66.6 million had been deferred to the subsequent fiscal year for consideration.

Our review was made at EDA Headquarters in Washington, D.C., and at EDA's Mideastern, Southeastern, and Southwestern Regional Offices. The review included an evaluation of EDA's policies, procedures, and practices relative to the selection of public works and development facility projects for financial assistance; the designation of economic development centers in which financial assistance was provided; the extent of EDA's coordination of its public works assistance program with those of other Federal agencies; and an examination of 150 projects in the three regions for which financial assistance totaling \$77.7 million had been awarded. (See p. 45.)

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CHAPTER 2

COORDINATION WITH OTHER

AVAILABLE FEDERAL ASSISTANCE PROGRAMS

In this chapter we comment on EDA's procedures and practices in coordinating its assistance for public works facilities with assistance available under programs administered by other Federal agencies. Our comments also cover the practices of other Federal agencies in handling requests for assistance from applicants located in areas designated for EDA assistance and the agencies' coordination with EDA's efforts in meeting the objectives of the EDA act.

NEED FOR IMPROVED COORDINATION WITH OTHER FEDERAL PROGRAMS

EDA has not systematically coordinated its review of proposed projects in EDA-designated areas with other agencies administering public works facilities programs. EDA (1) provided grant and loan assistance for projects without first determining whether the assistance could have been provided under other existing Federal programs and (2) provided some grants for projects which replaced funds previously authorized or tentatively committed by other Federal agencies for the same projects.

In our opinion, EDA's awarding of assistance in this manner does not provide adequate assurance that the EDA assistance is not supplanting assistance from other Federal agencies. We believe that awarding assistance in this manner raises a question as to whether the EDA program is being administered in accordance with the legislative intent of the act as expressed by the Senate Committee on Public Works.

Section 716 of the act provides that all financial and technical assistance authorized under the act be in addition to, and not substituted for, Federal assistance available under other existing programs. The section provides also that no provision of the act:

"*** shall be construed as authorizing or permitting any reduction or diminution in the proportional amount of Federal assistance to which any State or other entity eligible under this Act would otherwise be entitled ***."

In its report (S. Rept. 193, dated May 14, 1965), on the bill that became the Public Works and Economic Development Act of 1965, the Senate Committee on Public Works provided the following guidance concerning the use of public works funds.

"The committee wishes to emphasize that the funds provided under this title for grants-in-aid are not to be merely substituted for funds available under existing programs. It would be contrary to the intent of this act if other Federal agencies cut back the amount of funds which would have gone to designated areas if these additional funds were not available. *** The funds here are to be considered additional to those which a designated area might obtain under other programs."

A majority of the projects aided by EDA include the type of facilities which are authorized to be funded under existing programs administered by other Federal agencies. For example, of the 150 projects included in our review, 112 projects, or 75 percent, included water, sewer, and/or waste treatment facilities. At least three other major Federal programs authorize financial assistance for these types of projects. EDA, however, did not always determine, prior to its award of financial assistance for a proposed project and obligation of funds, whether financial assistance for the project could have been provided by other Federal agencies.

EDA regional officials advised us that EDA did not interpret section 716 of the act as requiring EDA to determine whether the financial assistance requested for a project could be provided under other Federal programs. On the contrary it was the officials' position that EDA had primary jurisdiction over all public works projects in EDA-designated areas, with the exception of waste treatment facilities for which the Environmental Protection Agency (EPA), formerly

the Federal Water Quality Administration of the Department of the Interior, had primary jurisdiction.

The EDA officials referred to a 1965 interdepartmental agreement which established a plan of operation and coordination for the water and sewer projects of the Departments of Agriculture, Commerce, Housing and Urban Development, and the Interior.

The plan assigned jurisdictions among the respective agencies for processing applications for assistance on water projects, sewer projects, and waste treatment plants and established a system under which the agencies refer applications for financial assistance to the appropriate agencies. EDA was given the primary responsibility for processing applications for assistance (except for waste treatment facilities) in EDA-designated areas when EDA determined that the projects would have significant economic impact.

The plan provides that, to facilitate EDA's evaluation of the projects' economic impact, all inquiries received by the agencies concerning projects located in areas designated for aid under the EDA act be referred to the appropriate EDA field offices for their information and decisions on whether EDA will accept responsibility for the projects. In December 1967 the plan of operation and coordination was broadened to include other public works and facilities projects of the four agencies.

Our review revealed numerous instances in which EDA had accepted applications for financial assistance for projects directly from the sponsors and had awarded grants and loans for the construction of public works and development projects without determining whether financial assistance could have been provided under other Federal programs. Even in those instances in which an application for financial assistance for a project was referred to EDA by one of the other Federal agencies, EDA did not always determine whether the financial assistance could have been provided under other Federal programs.

Our discussions with officials of the Farmers Home Administration (FHA), the Department of Agriculture, and the

Department of Housing and Urban Development (HUD) revealed that those agencies did not consider furnishing financial assistance for projects located in EDA-designated areas unless EDA declined to accept responsibility to provide assistance for the projects.

Our review showed that EDA had provided some grants for projects which replaced funds previously authorized or tentatively committed for the same projects by other Federal agencies.

This practice appeared to be contrary to the policy of not substituting EDA funds for those of another agency, as expressed by the Assistant Secretary for Economic Development in a letter to us, dated July 16, 1969. In his letter the Assistant Secretary indicated that the legislative history made it clear that EDA funds were not to be substituted for another agency's funds which ordinarily would be available for a project. Following are excerpts from that letter.

"The legislative history of section 101(c) makes it clear that EDA funds are not to be substituted for another agency's funds which would ordinarily be available to a project. Thus, Congress has stated:

'It would be contrary to the intent of this Act if other Federal agencies cut back the amount of funds which would have gone to designated areas if these additional funds were not available.

*** The funds here are to be considered additional to those which a designated area might obtain under other programs.'"

* * * * *

*** EDA will not give a direct grant for a project which is eligible to be funded by another agency unless that agency certifies that it has no funds available to the project."

* * * * *

"Only if a State or Federal agency attempts to withhold funds which are authorized and available to a project would EDA limit its supplementary grant participation therein, i.e., EDA funds would not be used to supplant the basic grant agency funds."

Our review revealed that FHA withdrew tentative grants of \$2,182,000 and reduced tentative loans by \$1,491,300 after EDA had awarded grants totaling \$4,094,300 for seven water and sewer projects in the State of West Virginia. One of these projects is described below.

Example A

In March 1967 FHA tentatively committed a grant of \$73,000 and a loan of \$610,000 to finance the costs of sewer improvements in a town in West Virginia. FHA took this action after a referral had been processed under the interdepartmental procedure and after EDA had advised that it would not accept responsibility for financing the project. In May 1967 the town filed an application for an EDA grant, stating that it had not been successful in its attempt to obtain a grant from FHA.

FHA advised EDA late in May 1967 that its development grant funds for the fiscal year were fully committed and requested that EDA provide grants necessary to make the project feasible. In June 1967 EDA awarded the applicant grants totaling \$520,800--the maximum grant amount authorized for the area. In September 1967, as a result of the EDA grants, FHA withdrew its prior grant commitment of \$73,000 and reduced its loan commitment from \$610,000 to \$132,000.

We believe that EDA should have determined whether the \$610,000 of FHA loan funds could have been used to finance part of the project cost and thereby could have reduced the EDA grant.

In two other instances we noted that EDA had awarded basic and supplementary grants totaling \$1,146,700, which replaced loan funds previously authorized for the same projects under other Federal programs. One of these instances is described below.

Example B

In April 1965 HUD approved a loan of \$537,000 to cover the entire estimated cost of a project for water system improvements in a town in Oklahoma. In July 1967 the town wrote to HUD regarding its intent to use the entire approved amount for the water system project. HUD informed the town on July 26, 1967, that it was deferring further processing until the town received a grant commitment from EDA.

In January 1968 EDA received the town's application for grant assistance for the same water system improvements. In March 1968 EDA awarded a grant of \$469,700 for the water system project which, at that time, was estimated to cost \$671,000. Since the town needed only \$201,300 to make up its share of the project costs, a part of the HUD loan was used to provide that amount. HUD subsequently amended its loan agreement to authorize the town to use the remainder of the loan (\$335,700) for a sewer project.

In commenting on our report, EDA stated that "the town failed twice to ratify bonds for the project; thus, the HUD loan had failed to develop the project." We noted that in July 1968 the town notified HUD that the voters had approved a bond issue for the \$537,000 HUD loan.

With respect to waste treatment facility grants, EDA's grants supplementary to the basic grants provided by EPA may have replaced funds that otherwise would have been provided by EPA in the form of bonus grants to eligible applicants under the Federal Water Pollution Control Act of 1956, as amended (33 U.S.C. 466). In two EDA regional offices, we found instances in which EDA had awarded supplementary grant assistance at the maximum grant rate for the project areas and thereby had precluded EPA from awarding bonus grants. An example is cited below.

Example C

In April 1967 EPA awarded a 30-percent grant in the amount of \$18,000 to a town in Mississippi for construction of a waste treatment facility estimated to cost \$60,000. In its application the town also requested a bonus of 10 percent of the grant and was informed by EPA that the request was under consideration. At the same time the town applied to EDA for supplementary grant assistance. In May 1967 EDA awarded a 30-percent supplementary grant of \$18,000, which brought the total Federal assistance up to the 60-percent maximum grant rate for the area. EPA notified the town in July 1967 that, since the maximum assistance authorized under the act had been awarded, no further action would be taken on its request for the bonus grant.

In commenting on our report, EDA advised us that a memorandum was issued to EDA regional offices in July 1970 that directed them to coordinate waste treatment projects with EPA to determine whether the projects were being considered for bonus grants by EPA. (See p. 53.) The memorandum also provided that, until those determinations were made, applications for financial assistance be retained in the EDA regional offices.

CONCLUSIONS

Several Federal agencies, including EDA, administer grant and/or loan programs under which financial assistance is available for the same types of public works facilities. EDA provided grants and loans for a number of public works projects without determining whether financial assistance for all or part of the cost of the projects could have been provided under other existing Federal programs. Some of EDA's grants replaced both grants and loans previously approved or tentatively committed for the same projects by other Federal agencies.

The significance of replacing loans with grants was that the loans would have been repayable. The procedures adopted under the interdepartmental agreement, for assignment of responsibilities for processing applications for financial assistance for water and sewer projects, have resulted in EDA's having exclusive jurisdiction over most projects in EDA-designated areas. We believe that the adopted procedures and EDA's practice of replacing grants and loans which were previously authorized or tentatively committed by other Federal agencies do not provide adequate assurance that the EDA assistance is, in fact, not supplanting assistance which the designated areas might obtain under other programs.

AGENCY COMMENTS AND OUR EVALUATION

EDA stated that it did not agree with our interpretation of section 716 of the EDA act. (See p. 50.) EDA stated also that (1) it interpreted section 716 to be essentially an admonition by the Congress to all other Federal agencies not to reduce assistance otherwise available simply because EDA could provide assistance to an area, (2) acceptance of our interpretation would result in undeterminable delays in

approving projects while EDA researched which other agencies legally could entertain the project proposal and determined whether such agencies would fund the project, and (3) when it was apparent that a project would be of interest to another Federal program, EDA's policy was to ascertain, prior to approval of the project for financial assistance, that funds for the project were not available under that program.

We believe not only that section 716 of the act is an admonition to all other Federal agencies not to reduce assistance available under their programs but also that section 716 applies especially to EDA. According to the legislative intent of the act, EDA funds should not be substituted for funds available under other existing Federal programs and EDA assistance furnished to EDA-designated areas--areas which are economically distressed because of severe unemployment and underemployment--should be in addition to assistance furnished to those areas by other Federal programs.

We disagree that acceptance of our interpretation of section 716 of the act would result in undeterminable delays in approving project applications. Although it may result in some delays, it should not result in any longer delays than would be required under EDA's current policy of ascertaining, in those instances when it is apparent that a project would be of interest to another Federal agency, that funds were not available under that agency's program.

The interdepartmental agreement could be changed to require that (1) applications for assistance for projects in EDA-designated areas be referred to the other Federal agencies to determine whether assistance could be provided under those agencies' programs and (2) such referrals be given timely consideration by those agencies.

Finally our review did not substantiate that EDA, in those instances when it was apparent that a project would be of interest to another Federal agency, had ascertained, prior to the approval of the project for financial assistance, that funds were not available under that agency's program. On the contrary our review revealed numerous instances in which EDA had accepted applications directly from the applicants and had awarded grants and loans without determining whether financial assistance could have been provided under other Federal programs.

RECOMMENDATION TO THE SECRETARY OF COMMERCE

We recommend that the Secretary of Commerce require EDA to effectively coordinate its public works financial assistance programs with those of other Federal agencies and to urge the adoption of changes in the 1965 interdepartmental agreement to provide greater assurance that such agencies provide available funds for projects under their programs before EDA provides any financial assistance.

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CHAPTER 3

BENEFITS TO UNEMPLOYED AND UNDEREMPLOYED RESIDENTS

OF EDA-DESIGNATED AREAS

In this chapter we comment on the need for EDA to adopt improved procedures for approving public works projects for financial assistance to ensure that the approved projects will provide increased benefits to the unemployed and underemployed residents of EDA-designated areas and that the projects will be constructed within a reasonable time.

NEED FOR IMPROVEMENTS IN SELECTION OF PROJECTS FOR FINANCIAL ASSISTANCE

The act authorizes EDA to make direct and supplemental grants and loans to eligible applicants for public works and development facilities which will (1) tend to improve opportunities for the successful establishment or expansion of industrial or commercial facilities, (2) otherwise assist in the creation of additional long-term employment opportunities in the area, or (3) primarily benefit the long-term unemployed and members of low-income families.

Our review of 150 EDA projects revealed that about 14 percent of the projects appeared questionable because (1) the economic impact of some of the projects on the unemployed and underemployed residents of the designated areas seemed nonexistent or very low, (2) there was inadequate assurance that the projects would be completed within a reasonable time, and (3) there was inadequate assurance that construction would start within a reasonable time.

EDA has approved grants of about \$10.7 million and loans of about \$1.9 million for these questionable projects. We found that, in each of the three regional offices covered in our review, project applications were being reviewed for conformance of the proposed project to the objectives of the act and were being recommended for approval and approved without adequate evaluations as to whether the indicated benefits of the proposed projects were realizable.

We believe that improvements are needed in EDA's evaluation and approval of proposed projects to ensure that only those projects will be approved for financial assistance that reasonably can be expected to have significant and timely economic impact on the project areas.

Projects approved although economic impact appeared to be nonexistent or very low

Following are some examples of projects which we believe were questionable in terms of providing significant economic impact.

Example A

In May 1968 EDA awarded a grant of \$140,000 for expansion of a general hospital, estimated to cost \$175,000. The grantee estimated that the project would create 30 jobs (nurses, orderlies, cooks, etc.) in the hospital. Since the original hospital was built with Federal assistance under the Hill-Burton grant program of the Department of Health, Education, and Welfare (HEW), the county initially requested expansion funds from HEW through the Tennessee Public Health Department. HEW funds were not made available, however, because of the low priority that had been assigned to the project under the HEW-approved Tennessee State Hospital Plan.

According to EDA's Economic Development Order 3.03-3, dated November 6, 1967, EDA ordinarily does not encourage public works applications for financial assistance for the construction or improvement of hospitals because assistance for such projects is a primary function of HEW under its Hill-Burton grant program. Order 3.03-3 indicates that hospitals are generally too costly in relation to their economic development benefits and that, when Hill-Burton funds are not available, EDA assistance will be provided only when it can be shown that a hospital is essential to the establishment or expansion of an identified industrial or commercial enterprise having significant employment potential.

We found no evidence of offsite economic impact, since neither an industry nor an industrial expansion was

contingent upon the expansion of the hospital. The county was suffering from a high rate of unemployment and an even more serious problem of underemployment due to the lack of industrial activity in the area and the dependency upon low wages in agricultural jobs.

In commenting on our report (see p. 55), EDA stated that the hospital expansion had been approved for EDA financial assistance largely on the basis of the off-site economic impact anticipated from the expansion through its ability to enhance the economic development of the redevelopment area in which the hospital was located. EDA stated also that new industry, in considering locating in a given area, was interested increasingly in community development and that it appeared reasonable to conclude that the town's future economic development potential would be enhanced greatly if it had a hospital of sufficient capacity to meet any increased needs occasioned by new industry.

As indicated previously we found no evidence of offsite economic impact attributable to expansion of the hospital or any information to show that the expansion would greatly enhance the community development of the area. The HEW Hill-Burton grant program is designed to provide Federal assistance for the construction or expansion of hospitals on the basis of need for such construction or expansion. In our opinion, EDA's approval of this project for financial assistance was questionable in view of the lack of offsite economic impact and the project's low priority under the HEW program.

Example B

EDA recognizes that parking facilities have low economic impact. The EDA Handbook, an informal digest of EDA's rules, regulations, directives, and policies, identifies parking facilities as generally ineligible for EDA assistance because the relationship of such facilities to economic development is tenuous.

Nevertheless in June 1967 EDA awarded a grant of \$444,500 to a city in Oklahoma for construction of a downtown parking facility estimated to cost \$889,000.

The city estimated that 77 existing jobs would be saved and that 471 new jobs would be created over a 5-year period on the basis of increased business sales activity which would be generated because of the additional downtown parking facility.

The EDA Southwestern Regional Office discounted the total number of 548 jobs to 37 and initially recommended disapproval of the project on the basis that its job-creating potential was nil. The regional office's records indicated that the regional office later had reversed its decision and had recommended approval on the basis of letters from businessmen in the city projecting 377 new jobs within 2 years after completion of the project.

The project subsequently was approved by EDA headquarters, although the project officer was of the opinion that assistance to the project should have been denied because, among other things, the expected employment opportunities did not appear sufficiently reliable to warrant approval of the project on the basis of increased economic impact. Construction of the parking facility was begun in August 1970.

In our opinion, there was inadequate evidence that the parking facility would result in increased sales and would create a significant number of jobs to alleviate unemployment in the area. In view of the low economic impact of parking facilities, approval of such facilities for financial assistance should be made only when the projected benefits have been supported adequately.

EDA, in commenting on this grant, stated that, in approving the project, it believed that it was important to have the benefit of the information to be derived from an experimental downtown environmental improvement program which would encourage the target population of redevelopment areas to utilize the facilities of the city. (See p. 56.) EDA stated also that the improvements provided by the project would serve to attract more redevelopment area residents to the city for commercial, employment, and service purposes and

that an increased flow of customers to the city would significantly increase retail sales and economic activity in the area.

EDA records contained no information indicating that the project in question--a parking facility--was considered an experimental downtown environmental improvement program. In view of the tenuous relationship of parking facilities to economic development, we continue to believe that such projects should be approved for financial assistance only when there is adequate evidence that the parking facility would result in increased sales and would create a significant number of jobs to alleviate unemployment in the area.

Example C

In June 1968 EDA awarded a grant of \$329,500 to a city in Arkansas to assist it in making environmental improvements to the downtown area. The improvements, estimated to cost \$659,000, were to include street improvements, landscaping, and parking areas and were expected to result in increased tourist activity.

The applicant city was a designated economic development center. EDA criteria require that, in approving projects in economic development centers, primary consideration be given to the approval of those projects which directly improve the employment opportunities of residents in the surrounding designated redevelopment areas. The city's projected impact of the improvements was the creation of 125 new jobs for persons residing in the nonredevelopment area in which the center was located and of 20 new jobs for persons from the surrounding redevelopment areas.

The EDA records did not contain adequate evidence that the environmental improvements would create 145 jobs or information on how such improvements would benefit the employment opportunities of residents in the surrounding designated redevelopment areas.

EDA stated that the economic development process produced by the local citizens in the city referred to

in this example took advantage of the community's most useful and best known resource--tourism. (See p. 57.) EDA stated also that expansion and exploitation of this resource was listed by the city as the number one priority to accelerate economic development of the area. EDA concluded that, on the basis of the expected increase in tourist dollars, it was reasonable to anticipate that expanded services would be required, which would provide new jobs.

We continue to believe that EDA's financing of this project was questionable in terms of having a significant economic impact on the area. EDA records did not contain adequate evidence that the project would create a significant number of jobs or information on how the project would benefit the unemployed residents of the redevelopment areas.

Projects approved although there was inadequate assurance that projects would be completed within a reasonable time

Following are two examples which we believe are questionable in terms of assurance that the projects would be completed within a reasonable time.

Example A

In December 1968 EDA awarded grants totaling \$1,403,000, to be matched by the applicant, for construction of a recreational complex on a group of islands in a lake in Georgia. The proposed project included construction of camping areas, a village area, an administrative and information building, a golf course, and water and sewer facilities.

The applicant had a three-phase development plan, and full development of the entire complex was scheduled for completion in 1975, about 7 years after approval of the grant. The applicant projected that 325 jobs would be created when the recreational complex was developed fully. The applicant estimated that, to achieve this impact, an additional investment of

\$14.8 million to \$17.5 million would have to be obtained from public and private resources to complete the complex.

The applicant provided no assurance that the large amount of additional resources necessary to complete the entire complex could be raised within the foreseeable future.

EDA, in commenting on this grant, stated that construction (1) of access roads to and through the recreational complex and (2) of the EDA projects (camping areas, a village area, an administrative and information building, a golf course, and water and sewer facilities) was under way and indicated that these projects must be in place before firm commitments to develop the remainder of the complex could be obtained. (See p. 58.)

We believe that good fiscal management dictates that EDA should have obtained reasonable assurances of the sources and timing of the significant additional financing of \$14.8 million to \$17.5 million needed to complete the recreational complex before awarding the grants of \$1.4 million for the complex. Approximately 2-1/2 years later, EDA appeared to have no more assurance that the large amount of additional resources necessary to complete the complex would be available than it did at project approval.

Example B

In February 1969 EDA approved grants totaling \$937,800 to a nonprofit corporation for site development of a proposed health, educational, and cultural complex in the State of Arkansas. The site development--including land acquisition, construction of a roadway, and extension of water and sewer lines to the site to be used for a vocational-educational school and a new county general hospital--was estimated to cost \$1,563,000. EDA justified approval of the project on the basis that these facilities would create 200 new jobs immediately upon completion and that they offered the potential for creation of 1,500 jobs within 5 years after completion.

EDA approved the project for financial assistance without obtaining any information as to the financing and scheduling of the construction of the school and the hospital. At the time of our visit to the project site, over a year later, EDA had obtained no assurance as to when the proposed facilities would be built. We were informed by an applicant official that the applicant had obtained no firm commitments from the proposed Federal sources that the funds necessary for constructing the facilities would be available. Although EDA had disbursed \$167,000 as of April 1, 1971, and although site development had been started, it was impossible for anyone to reasonably predict when the proposed complex would be completed or what the economic impact would be.

EDA stated that, although it was true that no firm time commitment for additional facility funding had been obtained, actual intent for such funding was indicated at the time of project approval. (See p. 58.) EDA stated also that a letter from the (1) county hospital board had stated that the board intended to place before the voters a request to finance a hospital at the project site and (2) State Board for Vocational Education had stated that it would build a vocational-educational facility at the site when funds were available. EDA stated further that the hospital board had over \$700,000 toward construction of the hospital and that it appeared that construction of the hospital, school, and other improvements would take place.

We continue to believe that EDA's approval of this project was questionable under the circumstances which existed at the time of project approval. We believe also that the approval of financial assistance of almost \$1 million should have been based on more than the applicant's expressions of intent to obtain the financing for the construction of the facilities.

Projects approved without adequate assurance
that construction would start
within a reasonable time

The 150 projects covered in our review included 111 projects which EDA had approved and for which it had obligated funds 22 months or more prior to April 1970. Of these 111 projects, six had been approved from 22 to 34 months but their construction had not been started. The six projects involved grant assistance of \$2,750,000.

At the time EDA approved two of the six projects, existing land easement problems did not permit the start of construction. An adequate review of the two project applications by the regional office should have precluded EDA's approval of the projects for which EDA obligated direct and supplementary grant assistance of \$355,055.

For four of the projects, for which EDA had approved the awarding of grants totaling \$2,394,800, the records indicated that construction of the projects had lagged primarily because the grantee had difficulty obtaining matching non-Federal financing or otherwise meeting the conditions of the grant agreement. Considerable doubt exists as to whether some of these projects will be developed in the near future.

EDA obligates funds for a project after it has approved the project application and after the grantee and/or borrower has accepted EDA's grant and/or loan agreement. The standard terms and conditions used in grant and/or loan agreements specify several conditions under which EDA can terminate all or any part of its obligation to fund a project. One of these conditions is the grantee-borrower's failure to have the intended work accomplished or committed to contract within 24 months of the date of acceptance of the EDA grant and/or loan agreement.

EDA generally does not exercise its right to terminate public works grant and/or loan agreements when the 24-month limitation is exceeded. EDA was allowing the grantees-borrowers additional time, in 3- to 6-month increments, to meet the conditions of the agreements. Recently, however, EDA has notified the grantees-borrowers that EDA will not exercise its right to terminate the grant and/or loan agreements.

EDA funds can be obligated only in the fiscal year for which they are appropriated by the Congress. The termination of grant and/or loan agreements and deobligation of funds after the end of the fiscal year in which the agreements were accepted would result in the funds' being returned to the U.S. Treasury and not being available to EDA. Our review of the six cases and our discussions with regional office employees indicated that, as long as there was some indication of local interest in a project, EDA preferred not to exercise its right of termination.

Delays in starting construction of EDA public works projects have been noted in surveys by staff members of the House Committee on Public Works, EDA's Office of Public Works, and the Department of Commerce's Office of Audits.

The results of the surveys by the Committee staff were discussed during hearings before the Committee's Special Subcommittee on Economic Development Programs in September 1970. The Committee staff identified 175 projects for which it appeared that there were inordinate delays in starting construction. EDA employees made a detailed analysis of 145 of the 175 projects to ascertain the reasons for the delays. The remaining 30 projects were not included in EDA's analysis because they were being administered by other Federal agencies. Some of the principal reasons for delays were design problems, financial problems, and land acquisition problems.

EDA officials are therefore aware of factors causing delays in starting construction of a project and have outlined EDA corrective actions which are being taken or which are under consideration. For example, EDA has instituted procedures requiring cursory reviews of project applications to identify, before an application is processed, major problems in project proposals. Also procedures have been established to evaluate the reasonableness of estimated time requirements for completion of the projects.

EDA, however, has expressed concern that there may be several drawbacks to some of the suggested changes in processing applications. For example, a requirement that all land be acquired before a project is approved may not be feasible because the grantee-borrower may not be able to

finance the purchase without a Federal commitment or because the grantee-borrower may be reluctant to tie up its funds without such a commitment. Furthermore EDA's Office of Public Works officials are concerned that the tightening up of preapproval requirements might place the EDA program out of reach of those severely distressed communities which have minimal technical and financial resources.

CONCLUSIONS

EDA, under its existing procedures, does not adequately determine whether proposed projects will significantly aid the unemployed and underemployed residents of the distressed areas on a timely basis. EDA was approving projects for financial assistance, for the most part, without adequate evaluations at the regional level as to whether the indicated benefits of the projects were realizable. We believe that EDA provided financial assistance for some projects which did not provide a significant or timely economic impact on the unemployed and underemployed residents of EDA-designated areas.

We believe that improvements are needed in the evaluation and approval of proposed projects to ensure that only those projects are approved for financial assistance that reasonably can be expected to have a significant and timely economic impact on the project areas. Improved evaluation procedures would provide for a more realistic evaluation of (1) the projected economic benefits to the unemployed and underemployed residents of the project areas, (2) the economic benefits in relation to project costs, and (3) the timeliness of the economic impact.

EDA's existing procedures for processing project applications, in conjunction with the statutory requirements for designation of areas eligible for financial assistance and for creation of areas' economic development programs, contain certain reviews, such as financial, engineering, and legal reviews, which are necessary for the selection and approval of projects for funding. The establishment of improved procedures for evaluating and approving projects for financial assistance would enable EDA to meet more effectively the objectives of the act.

AGENCY COMMENTS AND OUR EVALUATION

EDA stated that it had approved each of the projects in question in accordance with EDA criteria after a thorough review of all factors deserving consideration. In each instance project approval was based on the determination that the expenditure of Federal funds in such a manner would be in the long-term interest of the area.

EDA stated also that there were some avoidable delays in starting construction of projects and that, as noted by us, EDA had taken remedial steps in this area.

In view of the number of projects which appeared questionable, we believe that EDA's procedures do not provide adequate criteria for evaluating projects within each region to ensure that only those projects which have significant and timely economic impact and which are reasonably certain of beginning construction on a timely basis will be funded.

RECOMMENDATION TO THE SECRETARY OF COMMERCE

We recommend that the Secretary of Commerce require EDA to establish improved procedures for evaluating proposed projects to provide for a more realistic evaluation of (1) the projected economic benefits to the unemployed and underemployed residents of the redevelopment areas, (2) the economic benefit in relation to project costs, and (3) the timeliness of the economic impact.

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CHAPTER 4

DESIGNATION OF ECONOMIC DEVELOPMENT CENTERS

EDA designated some cities or areas as economic development centers within economic development districts that, in our opinion, could not reasonably be expected to contribute significantly to the alleviation of distress in the redevelopment areas of the districts which they were designed to benefit. The 150 projects selected for our review included 20 projects located in 17 economic development centers. We believe that the designation of three of these centers was questionable because of their unfavorable location in relation to the EDA-designated redevelopment areas. Furthermore EDA had not established a procedure for periodic reviews of designated centers to determine whether they should continue to be designated as economic development centers.

As of June 30, 1971, EDA awarded grants and loans totaling \$4,939,000 for public works projects in these three centers. Additional EDA grants and loans were provided under EDA's technical assistance and business loan programs, bringing the total EDA financial assistance in these economic development centers to \$6,390,500.

The EDA act authorizes the designation of multicounty economic development districts to create effective economic planning and development for the districts as a whole and for the redevelopment areas situated in such districts. The districts must include two or more designated redevelopment areas, must be of sufficient size and potential to foster economic growth on a scale involving more than a single redevelopment area, and must contain one or more economic development centers. Districts usually include one or more areas which are not designated as redevelopment areas. The economic development centers are not located in the redevelopment areas. According to the Assistant Secretary for Economic Development, the center concept provides for EDA assistance to stimulate economic growth in designated centers so that redevelopment area residents can find jobs near their homes and not be forced by inadequate employment opportunities to migrate elsewhere.

The act requires that, to be designated as eligible for EDA financial assistance, a center

- must have been identified and included in an approved district overall economic development program and recommended by the State or States affected,
- must be geographically and economically situated within the district so that its economic growth reasonably may be expected to contribute significantly to the alleviation of distress in the redevelopment areas of the district, and
- must not have a population in excess of 250,000 people.

As of June 30, 1971, EDA designated about 141 economic development centers across the Nation and provided to about 83 of these centers financial assistance for public works totaling about \$87 million and consisting of grants of \$82.1 million and loans of \$4.9 million.

EDA had no procedure for periodically reassessing the designation of economic development centers and for terminating designations when warranted because of changed conditions in the districts.

Described below are some aspects of the three economic development centers which, we believe, seriously restricted the chances of the centers' economic growth to contribute significantly to the alleviation of distress in the redevelopment areas of the districts, as required by the act.

Corpus Christi (Neces County), Texas

EDA designated Corpus Christi as an economic development center for the Coastal Bend Economic Development District on December 16, 1966. The district is composed of 20 south Texas counties, five of which--Atascosa, Goliad, Gonzales, Karnes, and Wilson Counties--were designated redevelopment areas. EDA, on June 30, 1968, terminated the eligibility of Atascosa County.

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The unfavorable location of the Corpus Christi center to the population centers of the designated redevelopment areas is illustrated by their round-trip mileage to and from Corpus Christi, as shown below.

	<u>Round-trip mileage</u>
Atascosa County	232
Goliad County	154
Gonzales County	282
Karnes County	182
Wilson County	228
Average mileage	216

We question whether a significant number of the residents of the five counties would be willing to commute round-trip distances ranging from 154 to 282 miles to fill jobs in the Corpus Christi economic development center. We believe that such jobs would benefit primarily the nearby areas that are not otherwise eligible for public works assistance.

In addition, San Antonio, Texas, a city of over 600,000 population, is much closer than is Corpus Christi to the population centers of three of the remaining four redevelopment areas in the economic development district (21 miles to Wilson County, 44 miles to Karnes County, 66 miles to Gonzales County). We recognize that the act prohibits the designation of San Antonio as a center since it has a population in excess of 250,000. Nevertheless it appears reasonable that San Antonio would have a greater effect on the alleviation of distress in the redevelopment areas than would Corpus Christi.

In August 1970 Corpus Christi was designated as an area of substantial unemployment. This subsequent designation of Corpus Christi makes it even more difficult for Corpus Christi to contribute significantly to the alleviation of distress in the redevelopment areas of the district because Corpus Christi's own population would be seeking new job opportunities.

Panama City (Bay County), Florida

EDA designated Panama City as an economic development center for the Northwest Florida Development District on April 13, 1968. The district is composed of 10 counties, three of which--Holmes, Calhoun, and Franklin Counties--were designated redevelopment areas. (See map on p. 35.) Bay County has a common boundary with only one of the three redevelopment areas, Calhoun County; eligibility of this county was terminated on June 30, 1969. The population centers of Calhoun, Holmes, and Franklin Counties are 48, 54, and 60 miles, respectively, from Panama City. We believe that it is questionable whether a significant number of the residents of the redevelopment areas would commute round-trip distances of 96, 108, or 120 miles to jobs in Panama City.

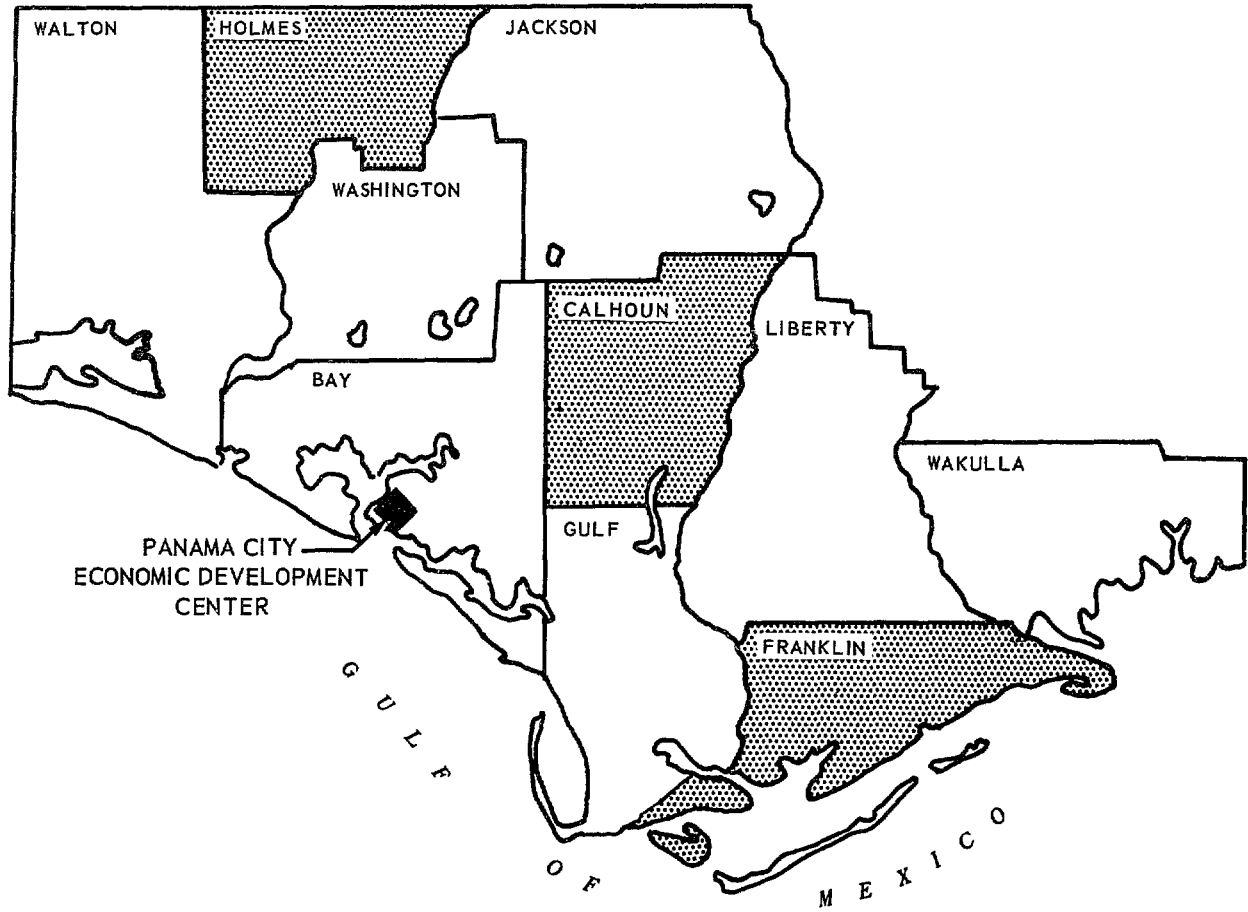
As of June 30, 1971, EDA had approved one public works project in the Panama City Economic Development Center and had awarded a grant of \$1,049,000 and a loan of \$1,050,000 for proposed expansion of the port facilities and development of adjacent industrial land. EDA estimated that 748 jobs would result from this project. We do not question the need for the facilities, but, because of the unfavorable location of the center, we question whether the facilities will provide significant relief from unemployment or underemployment in the designated redevelopment areas. Because of the distances involved, the jobs to be created by the port development are likely to be filled by individuals living nearer to the project site and outside the redevelopment areas.

Pueblo (Pueblo County), Colorado

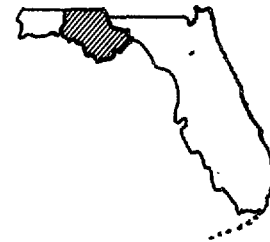
EDA designated Pueblo as an economic development center for the Southern Colorado Economic Development District on February 16, 1968. The district consisted of 15 counties, of which five were eligible at that time for EDA public works assistance and 10 were not designated as eligible. Two of the eligible counties, Costilla and Conejos Counties, accounted for the major part of unemployment in the district; however, the population centers of these two counties are over 100 miles from Pueblo.

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NORTHWEST FLORIDA DEVELOPMENT DISTRICT



 REDEVELOPMENT AREAS



Note: Eligibility for Calhoun County was terminated on June 30, 1969

Two other economic development centers--Trinidad and Alamosa, Colorado--for the district were also designated on February 16, 1968. These centers are located much closer to the poor and unemployed residents of the two counties having the most serious economic distress. As of June 30, 1971, however, neither Trinidad nor Alamosa had been provided with any public works assistance by EDA from the time that they had been designated as economic development centers.

On October 4, 1968, EDA awarded a 50-percent grant of \$253,000 to the city of Pueblo for the construction of a parking lot in the central business district. The project was approved on the basis that it would improve the environmental facilities of the center and thereby would accelerate the economic growth of the center and the adjacent areas.

EDA's policy for approving projects in development centers provides for giving priority to projects which create employment opportunities for the unemployed and underemployed in the designated redevelopment areas. Consideration may be given to projects which materially improve environmental facilities of the center when such facilities are determined to be an essential factor in accelerating the center's growth. Because of the unfavorable location of the Pueblo center in relation to the areas with most distress and because of the type of project funded, which contributes only indirectly to new jobs, it is doubtful whether this project will create any significant job opportunities for the residents in the redevelopment areas of the district.

We noted that, of the 20 counties in the district as of June 30, 1970, only three (Conejos, Costilla, and Crowley Counties) were designated as redevelopment areas. The records showed that Pueblo remained designated as an economic development center eligible for further EDA assistance.

CONCLUSIONS

The adoption of improved criteria for use in designating economic development centers within economic development districts is needed to provide greater assurance that EDA assistance for such centers will contribute significantly to the alleviation of distress in the redevelopment areas

of the districts. The most notable problem we observed in our review was the unfavorable location of some of the centers in relation to the designated redevelopment areas. EDA, in some instances, has designated centers without adequately considering the economic impact that large cities can have on the unemployed and underemployed residents of redevelopment areas when such cities are located closer to the district's redevelopment areas than are the centers.

We believe that EDA should designate economic development centers on the basis of studies covering current conditions within the district, as well as conditions in nearby areas outside the district's boundary. We believe also that EDA should provide for periodic reviews of designated centers and for termination of such designations when warranted by changed conditions.

RECOMMENDATIONS TO THE SECRETARY OF COMMERCE

We recommend that the Secretary of Commerce require EDA to

- adopt improved criteria setting forth the factors for consideration in determining whether the designation of an economic development center within an economic development district would contribute to the alleviation of distress within the redevelopment areas of the district and
- make periodic evaluations of such a designation, to determine whether it should be continued or terminated.

AGENCY COMMENTS

EDA stated that it was of the opinion that two of the growth centers used as examples in our report had had considerable economic impact on their respective districts. (See p. 62.) EDA stated also that the concern expressed by us with respect to growth center designation and project impact was shared to some degree by EDA and that it had under way an in-house evaluation study to measure EDA's impact on growth centers.

EDA explained that the study, which included an evaluation of projects with regard to jobs, economic structure impact, the quality of long-term employment, and an evaluation of the job impact on present and former redevelopment area residents, might well result in EDA's reconsideration of the criteria for designation of growth centers and might lead to the subsequent dedesignation of some of them. EDA stated also that the study might show what type of economic development project would best serve the interest of residents of redevelopment areas, as well as those of the development district.

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CHAPTER 5

ACCEPTANCE OF VALUE OF PREVIOUSLY ACQUIRED ASSETS

AS AN ELIGIBLE PROJECT COST

EDA should clarify its policy guidelines with respect to including the value of previously acquired assets as part of the cost of a project eligible for EDA financing.

Inclusion of the cost of previously acquired assets as an eligible project cost (1) increases the project cost base on which EDA computes the amount of the costs eligible for EDA financing and thus increases the Federal outlay of funds and (2) reduces or eliminates local contributions otherwise required. EDA practices of accepting the value of previously acquired assets as eligible project costs differed among the regional offices covered in our review. Also the value of previously acquired assets accepted for one project was not set at a conservative figure, contrary to EDA policy.

POLICY ON ACCEPTANCE OF PREVIOUSLY ACQUIRED ASSETS NOT UNIFORMLY APPLIED

The EDA act authorizes the Secretary of Commerce to make public works grants and loans for the purchase or development of land and facilities within a redevelopment area. The act does not mention whether eligible project cost may include the value of assets acquired by an applicant prior to making an application for financial assistance; however, the congressional committee reports on the proposed act dealt with this subject.

Senate Committee on Public Works Report 193, dated May 14, 1965, stated that previously acquired assets should be allowed as a part of aggregate project cost but that the value of such facilities should be limited to a conservatively appraised net value determined on the basis of an appraisal by a disinterested party. House Committee on Public Works Report 539, dated June 22, 1965, stated that previously acquired assets should be included as a part of the project cost only when such assets were an integral part

of the total project and only when the project could not be financed otherwise.

EDA policy provides that, in general, EDA not allow the inclusion of the value of previously acquired assets as a part of the total cost of EDA-financed projects. EDA policy guidelines, however, provide that EDA permit applicants for public works and development facility grants or loans to include the value of previously acquired land and facilities (including buildings, machinery, and equipment) as a part of the total cost of a proposed project, when

- the land and/or facilities are so physically related to the project as to be required for the successful functioning of the project,
- the facility to be constructed substantially exhausts the use of the land, and
- the project cost does not include the cost of more land and/or facilities than EDA determines to be reasonably necessary for the successful completion of the project to be constructed.

The inclusion of previously acquired land and/or facilities as part of the project cost (1) increases the project cost base on which EDA computes the amounts of its grants on the 50-, 60-, 70-, or 80-percent rates and thus results in a greater Federal outlay of funds and (2) reduces or eliminates local contributions otherwise required.

We noted that the three regional offices where we made our review had different practices regarding the value of previously acquired assets that were accepted as eligible project costs. These differences may have been caused by a lack of understanding of the official EDA position and point to the need for more definitive criteria on this subject.

At one EDA regional office, our audit sample of 35 projects did not contain any projects where the values of previously acquired assets had been accepted as eligible project costs. A regional office official advised us that the practice of the office was to not accept the value of

land or facilities owned by an applicant as an eligible project cost.

Another regional office accepted the value of previously acquired assets as eligible project costs for only two of the 52 projects included in our audit sample. In one case, an insignificant value--the applicant's cost--was allowed for previously acquired land. In the other case, the value of previously acquired land originally had been included in project cost at an appraised value but subsequently was deleted. Regional office officials told us that they generally did not accept the value of previously acquired assets as eligible project costs.

The third regional office more frequently accepted the value of previously acquired assets as eligible project costs. Our review of a sample of 63 projects revealed that previously acquired assets valued at about \$2 million had been accepted as eligible project costs for six of the projects. As of June 30, 1969, this regional office had accepted as eligible project costs previously acquired land and/or buildings, valued at \$5,151,000, on 33 public works projects. These projects had been approved in eight different States during the period November 1966 through April 1969. The dollar values of the property accepted as eligible costs of individual projects ranged from \$1,500 to \$1,552,000.

ACCEPTANCE OF OVERVALUED ASSETS RESULTED IN EXCESSIVE GRANT

EDA policy further provides that, when the value of previously acquired assets is included as part of project cost, the value be set at a conservative figure, determined by Government appraisal or by an independent appraiser satisfactory to the Government. An excessive grant of \$18,000 was awarded for one of the above-mentioned 33 projects for which the values of previously acquired assets were accepted as eligible project costs, because the regional office permitted overstated values for the previously acquired assets as eligible project costs.

In June 1967 EDA approved a 50-percent grant of \$626,600 to the library board of a city in Arkansas for the construction of a scientifically oriented library estimated

to cost \$1,253,200. The applicant's matching share of \$626,600 included \$271,632 as the total value of previously acquired land and land for which a purchase option was held.

The applicant furnished EDA with two appraisals of the parcels of land for the library site. The low appraisal showed that the value of the parcel owned by the city was less than the value that had been accepted as a project cost and that the value of the parcel for which the applicant held a purchase option was higher than the option price that had been accepted as a project cost.

Regional office officials advised us that they had not adjusted the project cost to reflect the appraised values of the project land because they had concluded that the increased value of one parcel would approximately offset the reduced value of the other parcel.

We brought this matter to the attention of the Assistant Secretary for Economic Development who agreed that, to establish the value of previously acquired assets to be included in eligible project costs, an option-to-purchase contract should not be accorded a value beyond its actual cost. The Assistant Secretary directed the regional officials to make appropriate reductions in the eligible project cost and in the amount of the authorized grant for the project. After considering other adjustments in project land values, EDA advised the applicant in July 1970 that the grant for the project was being reduced by \$18,000.

CONCLUSIONS

EDA policy concerning the acceptance of the value of previously acquired assets as an eligible project cost had not been implemented on a uniform basis by the three EDA regional offices. The policy statements should be clarified to help ensure that uniform practices are applied by EDA regional offices in deciding when previously acquired land and facilities should be included in the project cost and in determining the values for such assets when accepted.

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AGENCY COMMENTS AND OUR EVALUATION

EDA disagreed with us on the need for clarification of its policy on the acceptance of value of previously acquired assets as eligible project costs. (See p. 65.) EDA attributed the differences in the practice of accepting the value of previously acquired assets, noted in this report, to the circumstances surrounding each project and to differences among the types of projects developed by each regional office. EDA pointed out that a clear example of these differences might be seen as a result of the high concentration of Indian projects, for which leniency was permitted, that were developed by its Southwestern Regional Office.

There is some validity to EDA's comment that the differences were due to the high concentration of Indian projects in the Southwestern region. Of the 33 projects for which the regional office accepted the value of previously acquired assets, 23 were Indian projects. These Indian projects, however, accounted for only \$1,177,000, or 23 percent of the total values of previously acquired assets accepted as eligible project costs by the regional office. The values of previously acquired assets accepted in the other 10 non-Indian projects totaled \$3,974,000, or 77 percent of the eligible project costs.

Furthermore it should be noted that the practice of one of the three regional offices included in our review was to not accept the value of previously acquired assets as an eligible cost of any project. We therefore believe that a clarification of EDA's policy on this matter is needed.

RECOMMENDATION TO THE SECRETARY OF COMMERCE

We recommend that the Secretary of Commerce require EDA to clarify its policy on the acceptance of the value of previously acquired assets as project costs eligible for financing, to help ensure uniform application of the policy.

CHAPTER 6

SCOPE OF REVIEW

Our review was conducted at EDA headquarters in Washington, D.C., and at the Mideastern, Southeastern, and Southwestern Regional Offices. The location of the three regional offices and the States served by each are shown below.

<u>Name and location</u>	<u>States served</u>
Mideastern Regional Office Huntington, West Virginia	Kentucky, North Carolina, Ohio, Virginia, and West Virginia
Southeastern Regional Office Huntsville, Alabama	Alabama, Florida, Georgia, Mississippi, South Caro- lina, and Tennessee
Southwestern Regional Office Austin, Texas	Arizona, Arkansas, Colorado, Kansas, Louisiana, Nevada, New Mexico, Oklahoma, Texas, Utah, and Wyoming

We reviewed the EDA act and related legislative history; EDA's regulations, policies, and procedures; and pertinent records pertaining to selected public works projects. In addition, we visited selected project sites and held discussions with grant-loan recipients; EDA field employees; and community, city, county, and State officials.

We also examined records and/or consulted with officials in the Departments of Transportation; Agriculture (Farmers Home Administration); Housing and Urban Development; and Health, Education, and Welfare and in the Environmental Protection Agency. Our contacts with these agencies were made at their headquarters in Washington, D.C., and/or at the regional level. We were concerned with the agencies' financial participation in the selected EDA projects or the extent of EDA's coordination with the grant or loan programs administered by these agencies for the same types of facilities.

To evaluate EDA's administration of project applications, we selected for examination a sample of 150 public works projects in the three regional offices for which EDA provided financial assistance in the form of direct grants, supplementary grants, and loans. The sample was structured to give proportionate coverage to each type of project on the basis of EDA's system of project categorization. The individual projects under each type were selected using random selection procedures. The ratio of the sample to the total number of public works projects in each region that were approved as of June 30, 1969, the cutoff date of our sample selection, is shown below.

<u>Regional office</u>	<u>Number of projects</u>	<u>EDA funds (millions)</u>	<u>Projects reviewed by GAO</u>		<u>Percent of total</u>	
			<u>Number</u>	<u>EDA financing (millions)</u>	<u>Projects</u>	<u>Financing</u>
Mideastern	287	\$163.0	52	\$24.9	18	15
Southeastern	292	116.0	35	17.8	12	15
Southwestern	<u>358</u>	<u>148.3</u>	<u>63</u>	<u>35.0</u>	<u>18</u>	<u>24</u>
Total	<u>937</u>	<u>\$427.3</u>	<u>150</u>	<u>\$77.7</u>	16	18

TOTAL APPROVED PUBLIC WORKS PROJECTS
BY SOURCE OF FINANCING
AS OF JUNE 30, 1971

	Number of <u>projects</u>	Amount (000 omitted)	Percent of <u>total</u>
Public works--EDA:			
EDA funds	1,701		
Direct grants		\$ 782,469	49.4
Supplementary grants		94,789	6.0
Loans		<u>117,983</u>	<u>7.5</u>
EDA total		995,241	62.9
Other funds		<u>588,185</u>	<u>37.1</u>
Total cost		<u>\$1,583,426</u>	<u>100.0</u>
Public works--supplemental to other Federal agencies:			
EDA funds	419		
Supplemental grants		\$ 76,818	23.7
Loans		<u>13,861</u>	<u>4.3</u>
EDA total		90,679	28.0
Other agency funds		106,328	32.8
Other funds		<u>126,721</u>	<u>39.2</u>
Total cost		<u>323,728</u>	<u>100.0</u>
Total EDA grants		\$ 954,076	50.0
Total EDA loans		<u>131,844</u>	<u>6.9</u>
Total EDA funds		1,085,920	56.9
Total other funds	_____	<u>821,234</u>	<u>43.1</u>
Total project costs	<u>2,120</u>	<u>\$1,907,154</u>	<u>100.0</u>



THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

AUG 6 1971

Mr. Max A. Neuwirth
Associate Director
Civil Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Neuwirth:

This is in reply to your letter of May 3, 1971 requesting comments on a draft report entitled "Need For More Effective Use of Program Resources In Awarding Grants and Loans For Public Works and Development Facilities."

We have reviewed the comments of the Economic Development Administration and believe that they are appropriately responsive to the matter discussed in the report.

Sincerely yours,

Laura E. Ehrhoff
for Larry A. Jobe

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THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

JUL 22 1971

Mr. Max A. Neuwirth
Associate Director
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Neuwirth:

The Economic Development Administration hereby submits its comments on the Draft Report to the Congress on the "Need for More Effective Use of Program Resources in Awarding Grants and Loans for Public Works and Development Facilities."

The GAO Draft Report contains the findings, conclusions and recommendations regarding five main program areas resulting from a review of grants and loans awarded by EDA for public works and development facilities. Our comments in response to this report and the recommendations made therein correspond with the order in which they appear in the Report.

1. Need for Improved Coordination with Other Federal Programs

In Chapter II of the subject Draft Report, GAO deduces the following conclusions:

1. "Contrary to the objectives of Section 716 of the Act and expressed legislative intent, EDA provided public works grants and loans to a number of projects without determining whether all or part of the cost of proposed facilities could have been funded under other existing Federal programs." (p. 18)
2. "In some cases, EDA's grant funds replaced both grant and loan funds already approved or tentatively committed for the same projects by other Federal agencies." (pp. 18-19)
3. GAO also expressed belief that assignment of processing responsibilities under interdepartmental agreement is contrary to legislative intent.

APPENDIX II

EDA does not agree with the interpretation of Section 716 of the Public Works and Economic Development Act of 1965 set forth in the GAO Draft Report. EDA interprets this section to be essentially an admonition by the Congress to all other Federal agencies not to reduce assistance otherwise available under their respective programs simply because EDA can provide financial and technical assistance to an area. It is not a directive requiring applicants eligible for EDA assistance to seek project funds from other Federal agencies before obtaining assistance from EDA. This interpretation is consistent with the Report of the Senate Committee on Public Works quoted in the GAO Draft Report. Acceptance of the interpretation offered by GAO as an absolute legal requirement would result in undeterminable delays in approving projects from redevelopment areas while EDA (1) researches what other agencies could legally entertain the project proposal and (2) determines whether such agency will in fact fund the project. In any case in those instances where it is apparent that a project would be of interest to another Federal program, EDA has instituted a policy of ascertaining, prior to the approval of financial assistance, that funds for the subject project were not available under such other Federal assistance program. Procedural implementation of this policy is as follows.

Upon receipt of an EDA application which may be of interest to other Federal agencies, a memorandum for transmittal to each of the other interested Federal agencies is prepared. In most cases, interest is expressed on the regional level; in the event coordination with another Federal agency would be desirable at the Washington level, however, a copy of the application and attachments are forwarded. Comments by other Federal agencies are inserted in the project file and the interested agency is informed of EDA action.

The specific procedure established by SF 101, which applies only to water and sewer projects, is intended to identify the appropriate agency to provide funding consideration. Further implementation of the policy is noted on page VI-3 of the Public Works Manual which is listed as one of the items required for the project as "Evidence that EDA funds will not be used to replace funds available for the project from other Federal programs."

In a memorandum to EDA Regional Offices dated August 19, 1968, the Director of the Office of Public Works stated that other Federal agencies, when appropriate, should be expected to participate to their maximum in eligible projects; and, in a memorandum dated October 11, 1968, he further emphasized the importance of coordinating with other Federal agencies.

Similarly, in carrying out its mission to supplement other grant-in-aid programs in eligible areas, EDA requires a statement of the amount of the basic grant from the appropriate agency or a certificate of unavailability of funds (see Public Works Manual, page VI-2).

Although EDA has endeavored to determine whether funds were available from other Federal programs with obvious interest in a project, it must be recognized that even when Federal programs with authority to fund a project can be identified, it is often quite difficult at the time an application is filed with EDA to determine whether such agencies will fund a project.

We can say, therefore, that our general policy would be to refuse to accept applications where there was a firm offer from another agency; but that circumstances might develop making acceptance perfectly proper.

APPENDIX II

The Draft Report cites three projects as examples of actions from which their conclusions are derived.

Project No. 03-1-00452 Hamlin Public Service District,
Lincoln County, West Virginia

The applicant for this project received a "Memorandum of Tentative Commitment" from Farmer's Home Administration, dated March 24, 1967, allocating \$610,000 in loan funds and a \$73,000 grant. The "Memorandum" stated that the agency's tentative commitment was contingent on the availability of sufficient FHA funds. Whether or not this "Memorandum" could be considered a firm offer of assistance becomes a moot point since FHA foresaw a shortage of grant funds (reference is made to a FHA letter dated May 26, 1967) and requested that EDA take jurisdiction over the grant portion of the project. EDA then proceeded to process the application in terms of its own criteria. The project was located in an 80% area; and after complete review (including a fair user determination), an offer of grant assistance in the amount of \$520,800 was made to supplement a FHA loan of \$130,200.

Project No. 08-1-00658 The Coweta Public Works Authority
Wagoner County, Oklahoma

In April of 1965, the applicant received HUD approval of a loan of \$537,000 to cover the entire estimated cost of a project for water system improvements in the town. In January 1968, EDA received the town's application for grant assistance for the same project. In March of the same year, EDA awarded grant assistance in the amount of \$469,700 for the project with an estimated total cost of \$671,000. HUD then revised their loan to authorize the town to use the remaining funds for a sewer project.

The GAO draft does not show that the town failed twice to ratify bonds for the project; thus, the HUD loan had failed to develop a project. The funding arrangements were worked out by the community and the two Federal agencies involved, in what we believe to be the best interests of the community.

We consider this to be a classic example of how EDA participation can resolve a stalemate situation into community progress.

Project No. 04-2-00354 Ackerman, Claiborne County,
Mississippi

The applicant was awarded a 30% FWQA grant of \$18,000, in April 1967, in response to an application which also sought a 10% FWQA planning bonus. EDA received a concurrent application and awarded a 30% supplemental grant. Since the grants totaled the maximum amount authorized for the area, FWQA informed the applicant that no further action would be taken relative to the bonus. In this instance EDA either could have refused to act; could have delayed action and risked being unable to act within the time limitation of available funds; could have awarded a reduced grant; or, taken a positive assistance effort. The last choice was considered to afford real advantage.

The question of coordination of sewage treatment projects with FWQA was brought to the attention of EDA regional offices by a memorandum dated July 9, 1970. This memorandum directed EDA regional offices to coordinate with EPA at the time of a sewage treatment project application in order to determine if the project is being considered for a bonus 10% grant by EPA. Until that determination is made, the project is to be retained in the EDA regional office.

2. Benefit to the Unemployed and Underemployed Residents of EDA Designated Areas

[See GAO note.]

GAO note: Deleted comments relate to matters not included in the report.

[See GAO note.]

This system of priorities is carried still further by the sub-allocation of the above funds to each of our six regional offices.

Careful project selection conducted through the Scope and Profile, the Pre-Application Conference, the Regional Office Review Committee and the final recommendations by the Regional Director, has proven to be the most efficient way to review all available information prior to encouraging an application. By this method of selection, justification for the project is developed at the local level and channeled through highly qualified personnel prior to a determination as to the quality of the project and its benefits to an area. The formal application for EDA assistance is accepted only after EDA is satisfied that the proposed project meets all the economic development criteria of the Public Works and Economic Development Act.

In the period from July 1, 1970, to December 31, 1970, EDA evaluated approximately 1,000 project proposals. Of these, 29% were referred to other Governmental agencies, 49% were rejected before pre-application conferences, 5% were rejected during or after pre-application conferences and 17% were accepted by EDA for processing and funding consideration.

[See GAO note.]

[See GAO note.]

The current selection procedure establishes a reasonable approach to provide maximum economic benefit to EDA designated areas and eliminates the number of projects with little economic impact. The system allows for an orderly flow of viable economic development projects and adequately meets the legislative intent of Congress to help communities establish stable and diversified local economies and sound long-range economic planning.

B. Approved Projects Where Economic Impact Appears Non-Existent or Very Low

The GAO report criticizes EDA's approval of five specific projects on the basis of their questionable economic impact. This agency, however, approved each of the projects in question in accordance with EDA criteria after a thorough review of all factors deserving consideration. In each instance, project approval was based upon the determination that the expenditure of Federal funds in such manner would be in the long-term interest of the area.

The approval of a 16-bed extension for the Hancock County Hospital, referred to in the Draft Report, was largely based on the offsite economic impact anticipated from the project through its ability to enhance the economic development potential of this redevelopment area.

At the time of project development, the town had a commitment from one industry to locate there--the first in the history of the county. New industry, in considering locating in a given area, is increasingly interested in community development and it appeared reasonable to conclude that the town's future economic development potential

APPENDIX II

would be greatly enhanced by the fact that it had a hospital of sufficient capacity to meet the present needs and any increased needs occasioned by the location of new industry. As such, the project was found in compliance with MEDO 3.03-3.

The "C" priority rating given the hospital at Sneedville under the HEW program only underlines the town's inability to obtain from that program the needed funds to provide what it considered its greatest drawback to economic growth, namely, sufficient hospital beds conducive to the attraction of industry.

In approving the Ada, Oklahoma, project, EDA felt it was important that the Agency have the benefit of the information to be derived from an experimental downtown environmental improvement program which would encourage the target population of redevelopment areas to utilize the facilities of the Center. It was fully recognized that the approval of this project was in no way to be considered a precedent for approval of other projects of a similar nature.

The proposal to modernize downtown Ada by creating new parking area and weather protected shopper's waiting stations for public transportation stems partly from the city's role as an Economic Development Center and its commitment to take the steps necessary to insure that unemployed and underemployed residents from Redevelopment Areas benefit from the Center's growth. The improvements provided by the project would serve to attract more RA residents to the Center for commercial, employment, and service purposes. An increased flow of customers to the Center would significantly increase retail sales and economic activity in the area. Local merchants are to undertake a thorough renovation program of their stores to make the downtown area the commercial center of the area.

This project is exceptional in nature and its construction is 70% complete. Its impact upon the economic development process cannot yet be validly assessed. It

may prove to be a very important factor in the future development of this growth center, and projects such as this may become another economic development tool.

The City of Hot Springs which is referred to in Example C is one with a history of tourism that is nationally recognized. Its tourist potential is still one of enormous proportion and its economic development has been retarded only by a degeneration of effort and facilities over the years. With the formation of the West Central Arkansas Economic Development District, however, attention was again turned to progress and growth.

The economic development process produced by the local citizens takes advantage of the community's and area's most useful and best known resource--tourism. In their Overall Economic Development Plan they list expansion and exploitation of this resource as the number one priority in the effort to accelerate economic development. The basic area and the basic recreational interest that drew tourists remains the same; and the required rejuvenation of this asset is as envisioned in this project.

It is noteworthy that this project has been supported by a supplementary grant of \$197,700 by the Ozarks Regional Commission. Based on the expected increase in tourist dollars, it is reasonable to anticipate that expanded services will be required, thereby providing the new jobs as indicated in the application.

Bids were opened on this project on May 5, 1971, and the award was made on May 17, 1971. Project construction has begun.

GAO is not correct when it states in Example D that two tourism and recreation projects were approved for Lake Lanier, Georgia, without assurance that "The large amount of additional resources necessary to complete the entire complex could be raised in the foreseeable future."

APPENDIX II

The United States Army Corps of Engineers was committed to construct access roads to the development and this has been accomplished with the construction of a bridge and causeway to the main development area. The Georgia State Highway Department in cooperation with Georgia Forestry Commission is building roads through the complex. A large part of the matching funds of 50% for the EDA projects were to be appropriated by the Georgia State Legislature and the Governor's special fund. Negotiations are now underway with several motel franchisors for the development of lodging facilities and discussions have been held with concessionaires interested in the management of eating and service establishments.

EDA believes that the infrastructure as provided by these projects must be in place before firm commitments by private sources to develop the commercial aspect of the area will occur. Construction on Project No. 04-1-00524 (water and sewer) began April 2, 1971. Bids were opened April 23, 1971, for Project No. 04-1-00479 (tourist complex) and construction is scheduled to begin May 30, 1971.

Because of its scope, the economic impact of this tourism complex located 70 miles from Atlanta cannot now be measured. But EDA is convinced that it will go far beyond the jobs provided by the proposed commercial establishments. The commitment to its success by the State of Georgia and the Georgia Mountain Economic Development District coupled with the quality of leadership of the Lake Lanier Development Authority are ample assurance to EDA that these projects will provide the desired lasting improvement of the economy of the area.

The report cites example E as a project which was to include land acquisition, construction of roadway and extension of water and sewer to the location of a proposed vocational-educational school and a new county general hospital. Land acquisition, except for some right-of-way, was deleted from the project during review. While it is true that no firm time commitment was in hand for additional facility funding when the project was approved,

actual intent was afforded in the application. A letter, which was on hand when the project was approved, from the Chairman of the Board of Governors of the Drew County Memorial Hospital stated that it was their intent to place before the voters a millage request to finance a hospital at this site. As of this time the hospital board has over \$700,000 on hand toward their hospital, and application has been made to the Department of Health, Education and Welfare under the Hill-Burton Act for additional funds. This information has been verified by the Executive Director of the Economic Development District. The State Board for Vocational Education by letter stated, "The State Board for Vocational Education will build a vocational technical education facility in Monticello, Arkansas, in the Monticello complex when funds are available for this project." This commitment still stands and the school is on the state's priority list. This too has been verified by the Development District Director.

The A & M College adjacent to this site has recently been made part of the University of Arkansas and where no expansion was possible prior to this project, expansion is now expected.

The city's approach at the time of the application was to take one step at a time. First the necessary water, sewer and road would be provided so that the hospital, school, and other improvements could move forward. It appears from the above that these things will happen, and the desired economic effects will materialize.

A side effect of this project not brought out in the Draft GAO Report is that the entire Health Education complex as envisioned in the project is a direct out-growth of three previous water and sewer expansions in the city which facilitated construction of a three-phase Burlington Mills complex that now hires over 1,200 people in this small town of 5,000.

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C. Approved Projects Where Economic Impact has not Occurred in a Reasonable Time

The GAO Draft Report criticizes EDA for not exercising its right to terminate public works grant and/or loan agreements when the 24-month offer limitation period is exceeded. The Report also expresses concern that some projects will not be developed in the near future because of construction delays.

EDA has been extremely reluctant to terminate grant and/or loan agreements in recognition of the fact that many communities frequently lack the sophistication necessary to implement the construction of approved projects quickly and efficiently. EDA approves projects on the basis of preliminary engineering plans and specifications; this is done in an effort to maintain the cost of application preparation to the applicant at a minimum. Expenditures incurred by communities to develop complete plans and specifications should be made only after the project is approved and the availability of funds for construction are assured. Admittedly, this can result in lag time between approval and construction resulting in the delayed economic impact of the project until after its construction. We believe, however, that this approach, as well as the continued assistance by EDA to its applicants during this lag time to develop a well constructed project, is a price worth paying since the development process, triggered by the approval of the project in most instances, could well be halted should EDA deobligate approved project funds without going the extra mile to allow the communities as much time as possible during the post approval phase.

It would be more comfortable to measure economic impact immediately when construction follows approval automatically as it does in some of the more sophisticated communities where full-time engineers and city personnel have expert knowledge to deal with architects, engineers and construction contractors. However, EDA's projects frequently involve communities which do not have such expertise. Terminating a grant and/or loan agreement would be

tantamount to penalizing them for the lack of it. EDA must nurture the economic development process of these communities; if to do so means extending the agency's willingness to assist such communities to the limit, this should be done as long as EDA is satisfied that the project, when completed, will result in long-term economic development.

EDA agrees with GAO that there are avoidable delays in construction starts and, as noted by GAO, we have taken remedial steps in this area as follows:

1. Imposition of a requirement on the Grantee/Borrower to furnish a time table for actions after project approval. This requirement will be used as a management tool to prod Grantee/Borrowers when a project encounters delays.

2. Issuance of a sample cash flow plan for use by the unsophisticated Grantee/Borrower. It is hoped that completion of such a plan will give the Grantee/Borrower a clearer picture of potential financial problems and thus enable the Grantee/Borrower and EDA to avoid or resolve such problems as arise.

3. Coordination with other Federal agencies both at the field level and in Washington in reducing delays encountered when the other agency must give an approval to some aspect of an EDA project.

4. Nation-wide conferences have been instituted to discuss and explore ways to reduce delays. One such conference was held in Chicago in October 1970 and another is scheduled before the end of this fiscal year.

5. The Requirements for Approved Projects and the OPW Manual of Procedures have been revised to incorporate the improvements agreed upon at the Chicago conference.

3. Need for Improving the Process of Approving Economic Development Centers

APPENDIX II

The GAO Draft Report questions the selection of some growth centers and contends that in some instances they are too far removed for the redevelopment areas to be of much value to the population of those redevelopment areas within the district. In particular, the GAO report refers to three growth centers which are located a considerable distance away from the redevelopment areas and questions EDA's judgment of granting 6.4 million dollars to these centers. EDA does not agree with the contention of the report in this respect. Growth centers are identified, evaluated and recommended for designation by the district organization which is comprised of community leaders from the counties which make up the district. They take into consideration the following factors; population trends, size of the city, growth potential, the labor force, a measure of employment potential and the potential for relieving underemployment; the attraction of the city as a service and trade center, the overall economic activity such as industrial potential and diversification of industry, proximity to redevelopment areas, commuting range and transportation facilities; and, the provision of educational facilities as well as adequate housing for in-migrants.

Two of the three growth centers questioned in the GAO Report are seaports which have had considerable economic impact on their respective districts. Ports traditionally provide a great variety of job opportunities and if they have an opportunity to expand, as both Corpus Christi and Panama City have had as a result of EDA assisted port facilities, the hinterland benefits from the increased activity sufficiently to warrant designation as a growth center eligible for EDA assistance. Pueblo, Colorado, is the growth center for a twenty-county development district of which five counties are currently designated redevelopment areas. Pueblo, by far the largest city in the district, is centrally located; yet, because of the problem created by annual designations, when the GAO audit was conducted Pueblo was not conveniently located to the redevelopment areas. With the recent designation of Crowley County, however, plus the continued eligibility of Huerfano, it would appear that Pueblo once again is centrally located with respect to certain redevelopment areas in the district.

It is not expected that all RA residents commute up to 100 miles daily to their jobs. Growth Centers are expected to absorb in their total growth program those RA residents who wish to relocate to the center. This would be an acceptable alternative to migration to the large urban areas and is encouraged, particularly where there is little hope for economic growth in the redevelopment areas themselves. EDA growth center strategy, as spelled out in MEDO 1-28 (Revised), requires Positive Action Programs (PAPs) from all growth centers prior to the approval of any project. The PAP must delineate in detail how the center will provide job opportunities as well as social services to the redevelopment areas. These Positive Action Programs must be endorsed by the community leadership and the district organization; their implementation is periodically reviewed and a progress report is required prior to the approval of additional projects for that center. The strongest argument for EDA's growth center policy is the growth center's inherent capacity to provide jobs, housing, educational facilities, cultural and social services which will attract RA residents as well as new and expanding industry.

The concern expressed by GAO with respect to growth center designation and project impact is shared to some degree by EDA. It is for this reason that there is currently an in-house evaluation study underway to measure the EDA impact on growth centers. The study includes:

1. Evaluation of projects with regard to jobs, economic structure impact and the quality of long-term employment.
2. Evaluation of the job impact on present and former RA residents and on the unemployed and underemployed residing within the district; and, the measurement of the secondary impact on RA residents such as supply services and purchase of goods in their own community.
3. Evaluation of the effectiveness of Positive Action Programs.
4. Review of the Economic Development Process in growth centers with special emphasis on the attitudes of local government, businesses, labor, and service organizations.

APPENDIX II

5. Measurement of the growth potential of cities over a ten-year period to determine the best qualified growth centers.

This study may well result in EDA's reconsideration of the criteria for designation of growth centers and lead to the subsequent dedesignation of some of them. The study may also tell EDA what type of economic development project will best serve the interest of residents of redevelopment areas as well as those of the development district. It will provide EDA with the means to measure more effectively the implementation of the Positive Action Programs and their effectiveness on the improvement of the economic and social status of area residents.

[See GAO note.]

[See GAO note.]

5. Inclusion of Value of Previously Acquired Assets in Project Costs

In Chapter VI of its Draft Report, GAO asserts "There is a need for clarifying policy guidelines with respect to including the value of previously acquired assets as part of project costs eligible for EDA financing."

EDA acknowledged an error in the application of the previously acquired assets policy for the scientific library in Arkansas and has corrected this error. EDA does not find in the draft, however, data to substantiate that policies on this subject are obscure or promote random practice.

The draft, in discussing EDA policy, asserts that it is inconsistent because it states that "generally previously acquired assets will not be included," then lists special characteristics which are necessary for inclusion of the assets. This language would describe a condition where

APPENDIX II

inclusion of assets would be permitted only if other means to develop the project cannot be found and is in accordance with legislative intent. The Draft Report states that at one EDA regional office, of the 35 projects examined, none included previously acquired assets; at a second regional office, EDA accepted previously acquired assets in only two of the 52 projects included in the sample; and, in a third regional office, of the 63 projects reviewed, previously acquired assets were accepted in six of the projects. Without reference to the specific projects examined in each regional office, since a study of the projects examined was not included with the Draft Report, we attribute the variation in the practice of accepting previously acquired assets to the circumstances surrounding the development of each project. Furthermore, there are also variations among the types of projects developed by each regional office. A clear example of this variation may be seen as a result of the high concentration of Indian projects, for which leniency is permitted with regard to the policy under consideration, developed by the Southwestern Regional Office. It is not the purpose of the guidelines issued by this office to supplant the intelligent judgment of Regional Directors; thus, additional criteria for determination of the application of previously acquired assets has not been considered necessary. Some deviations must be expected when regional variations are considered in terms of the wide range of projects being developed. We believe EDA policy on this question has been clearly stated to the field; where unacceptable deviations have been found, the policy has been clarified and corrections have been made.

Sincerely,



for ROBERT A. PODESTA
Assistant Secretary
for Economic Development

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UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

OFFICE OF THE ADMINISTRATOR

JUN 4 1971

Mr. Bernard Sacks
Assistant Director, Civil Division
General Accounting Office
Washington, D. C.

Dear Mr. Sacks:

We appreciate the opportunity to review and comment on the draft of your report to the Congress on "Need for More Effective Use of Program Resources in Awarding Grants and Loans for Public Works and Development Facilities."

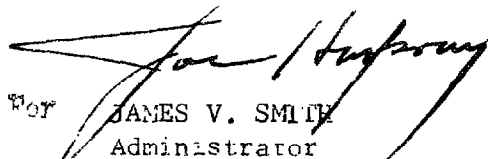
In chapter 2, page 16, reference is made to Farmers Home Administration withdrawing tentative grants of \$2,182,000 and reducing tentative loans by \$1,491,300 after EDA approved grants totaling \$4,094,300 for seven water and sewer projects in the State of West Virginia.

As you know, in 1965 when Federal assistance for water and sewer projects was expanded, the Bureau of the Budget recommended that an Interagency Committee be established to coordinate the processing of water and sewer projects. This committee, with the concurrence of BOB, entered into an agreement which specifically outlines the responsibilities for jurisdiction of applications. The agreement requires that all water and sewer applications located in an EDA qualified area will be submitted to EDA to determine if they will assume jurisdiction.

Apparently, the subject projects were determined by EDA to aid in the long-range economic development through the creation of new job opportunities. Since EDA was in a position to provide part of the total cost, FHA made up the difference in the form of a loan. We believe that this is in compliance with the Interagency agreement. The joint funding of specific projects makes it possible for each agency to extend limited funds to a greater number of projects.

We would welcome an opportunity to discuss this report in more detail if you so desire.

Sincerely,


For JAMES V. SMITH
Administrator

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APPENDIX IV



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

JUN 16 1971

Mr. Philip Charam
Associate Director
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Charam:

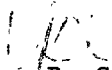
The Secretary has asked that I reply to your letter of May 3, in which you requested we comment on your proposed report to the Congress, entitled, "Need for More Effective Use of Program Resources in Awarding Grants and Loans for Public Works and Development Facilities."

While the report was directed solely to the Department of Commerce (EDA), there is a reference to this Department in Chapter 3. There, Example A points out that HEW funds were not made available for the expansion of a hospital because of the low priority that had been assigned to it under the HEW-approved Tennessee State Hospital Plan. Subsequently, however, EDA approved grant assistance of \$140,000 for the project.

We have no specific comments to make on this situation. The report, in our opinion, fairly presents the goals of the Hill-Burton grant program. It might be pointed out, however, that priority rankings under this program are set by the State. The fact that other Federal funds were advanced for this project did not have an adverse effect on our management of the Hill-Burton program.

We appreciate the opportunity to review and comment on your draft report.

Sincerely yours,


James B. Cardwell
Assistant Secretary, Comptroller

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 WASHINGTON, D. C. 20410

OFFICE OF THE ASSISTANT SECRETARY
 FOR COMMUNITY DEVELOPMENT

IN REPLY REFER TO:

JUN 3 1971

Mr. B. E. Birkle
 Assistant Director
 Civil Division
 General Accounting Office
 Washington, D. C. 20548

Dear Mr. Birkle:

This represents the Department's response to the proposed General Accounting Office report on the policies and procedures of the Economic Development Administration, Department of Commerce, in helping to finance public works and development facilities.

All of the recommendations in the report are aimed at action by EDA that would improve the effectiveness of its operations. However, Example B in Chapter 2 does make reference to a HUD assisted water project in Oklahoma about which we should comment. This water project is one for which HUD has executed a loan agreement, which was later reduced because EDA assumed responsibility for financing a part of it. Ordinarily a change in jurisdiction of this sort would not occur this late in the project development process because of the coordination that occurs between the two agencies at the outset. However, in this case, HUD had assumed jurisdiction over the entire project, not realizing that the project would qualify for EDA assistance. Subsequently, EDA determined that the project would result in the creation of permanent jobs and qualified for EDA funding. HUD does not interpret and apply the EDA criteria for agency jurisdiction but relies on EDA's determination. HUD, therefore, agreed to relinquish jurisdiction to EDA in this case.

Thank you for the opportunity to review the report before putting it in final form.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Floyd H. Hyde".

Floyd H. Hyde
 Assistant Secretary

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APPENDIX VI

ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

21 MAY 1971

Mr. Lloyd Smith
Associate Director
U. S. General Accounting Office
Washington, D. C. 20548

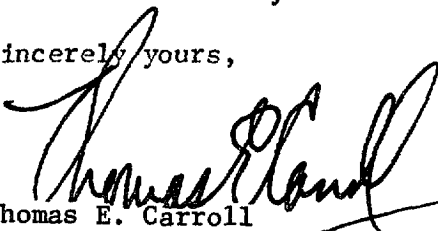
Dear Mr. Smith:

We have reviewed the General Accounting Office draft report, "Need for More Effective Use of Program Resources in Awarding Grants and Loans for Public Works and Development Facilities, Economic Development Administration, Department of Commerce."

While no specific findings or recommendations pertain to the Environmental Protection Agency (EPA), Chapter 2 of your report cites an example which discusses the Federal Water Quality Administration (FWQA), formerly of the Department of the Interior and now in the EPA. Specifically, the FWQA correctly refused to honor a 10% bonus grant application in that a supplemental grant by the Economic Development Administration (EDA) has increased the Federal contribution to the maximum amount allowable under the law. While your recommendation is addressed to the Secretary of Commerce, the EPA will continue to cooperate fully with the EDA in the coordination of its public works programs.

We appreciate the opportunity to furnish comments to your draft report.

Sincerely yours,



Thomas E. Carroll
Assistant Administrator
for Planning and Management

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PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF COMMERCE
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF COMMERCE:		
Peter G. Peterson	Feb. 1972	Present
Maurice H. Stans	Jan. 1969	Feb. 1972
C. R. Smith	Mar. 1968	Jan. 1969
Alexander B. Trowbridge	June 1967	Mar. 1968
Alexander B. Trowbridge (act- ing)	Feb. 1967	June 1967
John T. Connor	Jan. 1965	Jan. 1967
ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT (note a):		
Robert A. Podesta	Mar. 1969	Present
Ross D. Davis	Oct. 1966	Mar. 1969
Eugene P. Foley	Sept. 1965	Oct. 1966

^aPosition established effective September 1, 1965, as Assistant Secretary and Director of Economic Development. Re-designated as Assistant Secretary for Economic Development effective December 22, 1966.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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