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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D C 20548

GENERAL GOVERNMENT
DIVISION

AUG 17 1972

BEST DOCUMENT AVAILABLE

Dear Mr. Podesta:

The General Accounting Office surveyed the Economic Development Administration's (EDA) funded industrial park projects in the Commonwealth of Kentucky. We identified 46 sites relating to industrial parks in the Commonwealth. We also surveyed two EDA economic development districts in Kentucky.

We visited the former Huntington Regional Office, two economic development districts, and various industrial sites in the Commonwealth. Although our survey was limited in scope, we have some observations on two areas which we are reporting for your consideration.

NEED TO CLARIFY INDUSTRIAL PARK PROJECTS

The EDA Huntington Regional Office did not have an inventory of industrial parks in its region nor did it have records concerning the parks' development or occupancy. We obtained an inventory of the Huntington region's industrial parks at EDA headquarters but the inventory was incomplete and inaccurate.

An EDA official informed us that a complete and accurate inventory of industrial parks is difficult to obtain because EDA classifies its projects according to their primary purpose and many projects are multi-purpose in nature. If the industrial park is not the primary purpose of the project, it is not classified as an industrial park.

We visited 17 industrial park sites where the site was used by the applicant as justification for applying for EDA public works grants. Most of the grants were for water or sewage systems to service the site rather than for actual site development. Of the 17 sites, seven had some site development--such as land cleared and graded, access roads, and utilities--and all seven sites had at least one tenant. An additional five sites had land cleared but no other site development was completed or planned. The remaining five

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sites had no site development underway and the applicants informed us that no site development was planned.

For example, one of the five undeveloped sites was a farm field supplied with an EDA funded water system. Another of the five undeveloped sites was an operational farm where the industrial foundation no longer held the option to acquire the land. EDA funded a water line to the site.

An EDA official informed us that many of the industrial parks in Kentucky that he was familiar with, which were used as justification for EDA projects, were undeveloped sites, and, in some instances, farm pasture land. He said he believed that, in some cases, a local community would obtain an option on a site, with no intention of developing the site as an industrial park, in order to justify an EDA funded water or sewage project which the community needed.

Section 101(a)(A)(iii) of the Public Works and Economic Development Act of 1965, as amended--known as the poor clause--appears to authorize EDA to finance projects which have no economic impact but primarily aid the poor of the community. An EDA official in Huntington told us that the Regional Director would not approve projects justified solely on the poor clause.

On the basis of evidence in the EDA file, five communities with undeveloped industrial sites indicated that the water and sewage projects were designed to serve community residents as well as the industrial sites. We believe that these needed water and sewage projects--and possibly projects at other undeveloped sites--could have been funded under the poor clause rather than on the basis of the economic impact to be created by the industrial parks.

It appears that the Director's practice of not approving projects justified on the poor clause may have resulted in communities using industrial park justification as a subterfuge to obtain needed water or sewage systems. Such a practice appears to be unnecessary because the needed water and sewage systems are eligible for EDA assistance under section 101(a)(A)(iii) of the Public Works and Economic Development Act of 1965, as amended.

We believe that the Director's practice hampers EDA in obtaining an accurate inventory of industrial parks. We believe an accurate inventory of industrial parks and the

obtaining of information relating to the parks' development would be helpful to EDA management. Such information would enable EDA to identify those communities in further need of assistance in developing the park and would enable management to evaluate the effectiveness of EDA's efforts in financing industrial park projects.

ECONOMIC PLANNING COULD BE IMPROVED IN THE
LINCOLN TRAIL ECONOMIC DEVELOPMENT DISTRICT

The Lincoln Trail economic development district (EDD) in Kentucky was designated by EDA as an EDD in May 1969. EDA funded 57 percent of the Lincoln Trail's fiscal year 1972 administrative budget. These funds were provided for the professional staff to prepare an Economic Development Program for the District and to establish goals and development priorities for projects designed to alleviate persistent unemployment and underemployment in economically distressed areas and regions.

At the time of our visit in January 1972, Lincoln Trail had eight permanent planning committees. Three of the eight committees, although participating in district-wide planning were not involved with economic development planning. The Crime Council had a full-time director and was developing a regional jail plan; the Transportation Committee had developed a regional airport facilities plan; and the Urban Services Committee was involved with determining regional housing needs. The remaining five committees appeared to be relatively inactive.

The second stage overall economic development program dated March 31, 1970, for the district identified the goals and problems of transportation, crime, community services, and tourism and recreation. Lincoln Trail did not form an industrial and business development committee until after the second stage of the overall economic development program was written. As of January 1972 only three informal dinner meetings of the committee were held. The committee had a chairman but no permanent membership.

The District, in addition to being an EDD, is designated by the Commonwealth as an area development district (ADD). An ADD, like an EDD, is a multi-county area that has similar geographic, social, and economic characteristics. As an ADD, Lincoln Trail is interested in more than economic development. District officials told us that the District places its emphasis on

area development and views its role as making the District a nicer place to live.

We recognize that other aspects of planning are important and necessary to districts. It seems reasonable, however, where EDA funds over 50 percent of a district's administrative budget that more emphasis should be placed on industrial and business development. EDA may wish to reemphasize to the District the need for additional effort directed toward the economic development of the area.

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We appreciate the cooperation extended to our representatives during the survey, and we will be pleased to discuss our report with you or your representatives if you so desire. We plan no further reporting on the matters discussed in the report at this time; however, we would appreciate your comments on the action taken or contemplated on our observations.

A copy of this report is being sent to the Acting Assistant Secretary for Administration and the Director, Office of Audits, Department of Commerce.

Sincerely yours,

Donald C. Pullen

Donald C. Pullen
Assistant Director

Mr. Robert Podesta
Assistant Secretary for
Economic Development
Department of Commerce