

093843



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

MAY 4 1973

GENERAL GOVERNMENT  
DIVISION



LM093843

The Honorable William W. Blunt, Jr.  
Acting Assistant Secretary  
for Economic Development  
Department of Commerce

DLG 05185

AECO 0371

Dear Mr. Blunt:

We have made a limited survey of the Economic Development Administration's (EDA) business development loan and guarantee program. Our survey work was conducted at EDA's Midwestern Regional Office in Chicago, Illinois, and at selected loan recipients in Minnesota. Due to the uncertainty concerning the continuation of the program, we have terminated the work; however, our survey disclosed some circumstances which we wish to bring to your attention.

Efforts should be made to  
achieve minority hiring goals

The SDA approved a loan of \$300,000 to the Rajala Timber Company in 1968 for the establishment of a sawmill for the production of lumber and chips. An important factor in the loan approval was the applicant's proposal to have about one-third of its labor force comprised of Indians, a "target group" at the Leech Lake Indian Reservation. Additional Indian employment was also expected because the Reservation would be a labor source for timber cutting crews contracted to provide raw material.

At the time of our review in January 1973, 2, or less than 10 percent of the plant's work force of 23 employees, were Indians. Also, as of February 1973, logging crews were providing work for 93 people and, of these, 11 (about 12 percent) were believed to be Indians.

The plant is located on the Leech Lake Indian Reservation and a portion of the Reservation is located in Itasca County. The annual average unemployment rate for Itasca County for calendar year 1972 was about 12 percent, while the unemployment rate for the Leech Lake Indian Reservation for March 1972 (most recent available) was 40 percent.

712037

093843

A representative for the Minnesota Department of Manpower Services told us that in fiscal year 1973, 269 Indians in the proximity of Rajala Timber Company requested employment assistance and he further stated that they were projecting a caseload of 325 Indians in need of employment assistance in fiscal year 1974.

At the time of our review, Rajala Timber Company planned to add 11 more employees. The plant's manager stated that he has not made a special effort to hire Indian minorities and he further stated that generally their work habits were not good, and it is not the company policy to hire part-time help.

We believe that Rajala Timber Company should be urged to take steps to meet the minority hiring goals established in their loan application by, for example, (1) developing a strategy with the Leech Lake Reservation Tribal Council to seek out the most promising prospective employees, (2) working with the Minnesota Department of Manpower Services representative to hire some of the Indians he services, or (3) utilizing, if warranted, on-the-job training programs available through the Manpower Development and Training Act of 1962, as amended.

EDA loan may have facilitated  
plant relocations

The Public Works and Economic Development Act of 1965, as amended, Public Law 89-136, prohibits EDA from making a loan which will have the effect of assisting an employer in moving jobs from one area to another. In June 1968 the EDA approved a loan to the Little Falls (Minnesota) Area Industrial Development Corporation for \$162,500 to expand a boat manufacturing facility leased to Larson Industries, Inc. Three other plants, owned by Larson Industries, were closed as follows:

<u>Location</u>	<u>Approximate closing date</u>
Santa Ana, California	early 1968
Petersburg, Virginia	December 1968
Nashville, Tennessee	August 1969

These three plants had a total work force of about 500 people. Larson expected that employment would increase at Little Falls from a monthly average of 399 people in 1967 to a monthly average of 509 people 1 year after the expansion--this would be February 1970. We found that in February 1970, 523 people were employed; however, employment levels subsequently dropped and the 12-month average employment in 1970 was 387. In addition, Larson Industries presently has one other boat manufacturing plant at Nashville, Georgia.

Larson Industries provided a Certificate of Non-Relocation, dated May 17, 1968, which states in part:

"\* \* \* it is not the intention \* \* \* to relocate any present operation as a result of the above designated project; that neither said company \* \* \* has discontinued, liquidated or curtailed during the past 24 months any production unit similar to that which will be located at Little Falls, Minnesota; that \* \* \* such expansion will not result in an increase of unemployment in the area of original location \* \* \* and is not being undertaken with the intention of closing down or curtailing any existing operations \* \* \*."

During 1966 Larson Industries acquired Glasspar Company which owned the plants in California, Virginia and Tennessee listed above. "Glasspar" represented another model which the company markets. Subsequent to receiving the EDA loan, Larson has expanded the number of its production lines at Little Falls, Minnesota, from three to seven. However, the Glasspar models were produced at Little Falls as early as November 1966.

Correspondence files at EDA's Midwestern Regional Office disclosed that EDA was aware of the possible plant closings in California and Virginia as early as March 11, 1968. However, the President, Larson Industries, by letter of March 27, 1968, stated to EDA that no decision had been made to close the Santa Ana, California, plant. He also stated, should it be necessary to close this plant, all of the Glasspar production for the west coast would be handled by the plant at Nashville, Tennessee.

The Proposal and Recommendation for the Review of the Assistant Secretary, dated June 11, 1968, for the expansion contained a statement that "The loan meets all statutory criteria." The records do not establish the underlying reasons why the circumstances, as portrayed above, do not constitute a relocation within the definition contained in the Certificate of Non-Relocation signed by Larson Industries on May 17, 1968. Accordingly, we suggest that you make a determination in this case as to whether a violation has occurred with respect to the provisions of the Act concerning relocation.

Separate criteria may be needed  
to evaluate recreational loans

From 1964 through 1971 EDA approved four loans totaling \$346,950 to the Lutsen Ski Corporation for improvement and expansion of its operation. The EDA "Lending Guidelines" states that one job should

be established for each \$6,000 loaned and, in any event, funds should not be loaned if one job for each \$10,000 loaned cannot be realistically projected. Our review of the most recent Lutsen expansion loan for \$127,000, approved in June 1971, indicated that the number of jobs created fell well below this criteria; moreover, they were seasonal in nature. However, we identified many indirect benefits which appeared to exceed the benefits realized by the increased employment at the ski enterprise.

Lutsen projected to the EDA, prior to the approval of the June 1971 loan for expansion, that 14 direct jobs would be created or one job for every \$9,071 loaned by EDA. Our review disclosed that five direct jobs had been established or one job for every \$25,400 loaned. Moreover, these were seasonal in nature, lasting generally no longer than 3 months, thus a measurement in annual terms would yield one job for every \$60,960 loaned (12/5 times \$25,400). Significantly, the majority of the ski corporation's employees were transient types originating from outside of Cook County, the target area.

Based upon U.S. Department of Agriculture (USDA) research studies, we concluded that the indirect benefits from these loans may exceed direct benefits. Using the USDA research data and the number of skiers at Lutsen during the 1971-72 season, we estimated the following impact:

Direct	Lift tickets, equipment sales and rentals, ski lessons-per financial statements	\$228,900
Indirect	Lodging, meals, entertainment	370,000

We did not include transportation because the USDA study indicated that this expense was well largely outside the proximity of the ski area. However, we estimate the applicable transportation expense would increase the indirect impact by about \$114,000.

Therefore, EDA may wish to recognize the potential beneficial effect on businesses such as hotels and restaurants who might rely on the existence of the recreational enterprise, as well as the number of permanent direct jobs created.

- - - -

We shall appreciate your comments and advice as to the results of any further action taken on these matters. We understand the type

of projects funded by EDA business development loans may, in the future, be funded by the U.S. Department of Agriculture with funds authorized by the Rural Development Act of 1972. For this reason you may wish to forward a copy of this letter to the U.S. Department of Agriculture for their consideration in the future. We wish to acknowledge the cooperation extended to our representatives during our survey.

Copies of this letter are being furnished to the Assistant Secretary for Administration, and the Director, Office of Audits, Department of Commerce.

Sincerely yours,

Donald C. Pullen

Donald C. Pullen  
Assistant Director