



Highlights of [GAO-07-1005](#), a report to the Chairman, Subcommittee on Interstate Commerce, Trade, and Tourism, Committee on Commerce, Science, and Transportation, U.S. Senate

Why GAO Did This Study

Congress imposed restrictions on some federal programs to prevent funding of business relocations. You expressed concerns about state and local governments using federal funds to attract jobs to one community at a loss of jobs to another and about compliance with relocation restrictions. This report (1) identifies large federal economic development programs that state and local governments can use as incentives, (2) identifies which programs contain statutory prohibitions on funding relocations, and (3) assesses whether federal agencies had established and implemented procedures to help ensure compliance with prohibitions. To address these objectives, GAO searched federal databases, reviewed relevant statutes and regulations, and conducted limited testing of agency procedures.

What GAO Recommends

To improve the management of federal economic development grant programs, GAO recommends that the Departments of Labor, Agriculture, and Housing and Urban Development develop (or finalize the development of) and implement formal and structured approaches to monitor compliance. The Departments of Labor and Agriculture concurred with the recommendation and reported taking steps to implement it. Each of the three agencies provided technical comments that were incorporated into the report as appropriate.

www.gao.gov/cgi-bin/getrpt?GAO-07-1005.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

ECONOMIC DEVELOPMENT

Formal Monitoring Approaches Needed to Help Ensure Compliance with Restrictions on Funding Employer Relocations

What GAO Found

GAO identified 17 large federal economic development programs that offer financial assistance and services that state and local governments can use as incentives to attract and retain jobs. While academic studies indicate that it is difficult to quantify the funds used as incentives, particularly given differing definitions of incentives, the use of federal funds for such purposes appears to be more limited than the use of state and local funds. Although academic studies question the overall role and significance of incentives in firms' decisions to (re)locate, researchers with whom GAO spoke noted that incentives could influence firms that already had narrowed their choices.

Nine of the 17 large federal economic development programs restrict the use of program funds to support employer relocation. Seven are grant programs, and two are loan guarantee programs. In many grant programs, initial recipients of funds (states and local governments) provide funds to others (e.g., businesses) to facilitate economic development; in loan guarantee programs, third-party lenders approve businesses for eligibility to receive funds. All nine programs prohibit using federal funds to support a business relocation that causes unemployment, but the thresholds for job loss differ. For example, a single lost job would trigger the provision for six programs, but for the other three programs, the job loss threshold is higher.

Federal agencies administering the nine programs with a nonrelocation provision used various procedures, including screening applicants and monitoring recipients, to help ensure compliance, but the extent to which these procedures specifically addressed nonrelocation provisions was limited. The two loan guarantee programs emphasized screening procedures to help ensure compliance, and both programs had written guidance and other mechanisms that specifically addressed nonrelocation provisions. Screening may be effective for helping to ensure compliance in loan guarantee programs because federal agencies know at the time of initial application which businesses are requesting funds and how they plan to use them. In contrast, because of the way grant programs are structured, at the time of initial application, grant applicants do not always know which businesses later will apply for or receive assistance. As a result, officials administering grant programs relied more extensively on monitoring than screening to help identify instances of potential noncompliance. Despite this greater reliance on monitoring, only one of the grant programs GAO reviewed had written monitoring guidance that specifically addressed business relocation restrictions. Without formal policies and procedures, federal agencies have limited assurance that grant recipients and subrecipients are complying with statutory requirements that restrict the use of program funds to support employer relocations.