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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-153449

JUNE 28, 1979

The Honorable Juanita M. Kreps
The Secretary of Commerce

AGC00074

Dear Madam Secretary:

In December 1978, the General Accounting Office began a survey of the Economic Development Administration's (EDA's) implementation of the title IX program. The program, which was designed to save or create jobs and stimulate the economy of depressed areas, has been recently reorganized by EDA to improve its administration and effectiveness. As a result, our survey was suspended to allow EDA enough time to carry out the program changes.

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However, we noted during the survey that grantees' compliance with reporting requirements has been weak. Grantees have not submitted required reports, and EDA has not made sufficient effort to collect progress data from grantees. Further, the Congress lacks data on the program's effectiveness in assisting communities. The title IX annual reports submitted to the Congress merely reiterate the intended purpose of grants approved during the reporting year. For the most part, EDA has followed the practice of not providing program results data on prior year grants.

The survey was conducted at EDA headquarters in Washington, D.C., and its Atlantic regional office in Philadelphia, Pennsylvania. The survey was limited to 21 title IX grants within the Atlantic region approved during 1975-77. These grants were selected because enough time has passed that progress should have occurred and grantee reports should have been submitted. Grant files and pertinent title IX policies, procedures, and guidelines were reviewed. We discussed the grants' status with EDA project managers and visited four grantees for onsite observation. The 1975-78 title IX annual reports to the Congress were also analyzed.

*Economic Policy
Labor Employment
Federal Programs
Federal Employment
Federal Programs*



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*Letter Report
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BACKGROUND

The title IX Special Economic Development and Adjustment Assistance Program was added to the Public Works and Economic Development Act of 1965 (42 U.S.C. 3121) on September 27, 1974. Section 904 of title IX requires that grant recipients submit an annual report for each year of assistance and evaluate whether title IX is meeting the needs for which it was designed. It also requires that the Secretary of Commerce provide an annual consolidated report to the Congress with recommendations, if any, on the assistance authorized under the title.

Designed to save or create jobs and stimulate the economy of depressed areas, title IX helps communities adjust to economic changes resulting in the actual or threatened severe loss of jobs and revenues. Nationwide, communities received 243 grants totaling about \$311 million through fiscal year 1978. The grants were made in response to sudden economic dislocations or long-term economic deterioration caused by events such as the relocation or closing of a private employer or a Department of Defense facility.

Title IX provides considerable flexibility to EDA and communities. Funds can be used to maintain or reestablish employment by constructing public facilities, establishing revolving loan funds, and providing needed public services. Also, direct assistance, such as unemployment compensation, mortgage payments, and rent supplements, can be given to individuals who lose their jobs.

Two 1977 evaluations of title IX--one by a consultant firm hired by EDA and the other by EDA--showed a lack of specific program focus, unclear regulations and guidelines, and inadequate staffing. Partly because of these evaluations, EDA reorganized the program to improve the administration and responsiveness to economic problems. On October 1, 1978, title IX was divided into two programs--Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration. New guidelines clarifying eligibility criteria and other program requirements are being developed and should be issued by September 1979.

GRANTEE PROGRESS REPORTS
COULD BE BETTER MONITORED

Grantees' compliance with the title IX reporting requirements has been weak. Some grantees have not submitted reports at all, while others have submitted reports containing data that is inadequate to assess grant effectiveness. EDA has not done enough monitoring to correct these deficiencies or to verify grantee progress.

For the 21 grants surveyed, we reviewed grantee compliance with title IX reporting requirements and found the following:

- Six grantees did not submit any of the required reports.
- Eight grantees submitted some but not all of the required reports.
- Seven grantees submitted all required reports.

Examples of grantees who did not submit reports are discussed below. In April 1976, EDA provided a grantee in Puerto Rico \$2.4 million to renovate and improve plant space. The improved facility would be leased to a tenant who would reemploy over 300 workers left jobless when the previous company ceased operations. Proceeds from the lease were to be used for economic development. EDA has disbursed the entire \$2.4 million, and the grant file is in the process of being closed. An EDA March 1979 memorandum states that the grant was not properly monitored, and because no progress reports were located in the official project file, it was not possible to determine whether the original objectives were achieved. The memorandum further states there is no indication of how repayments to the grantee have been used if, indeed, the grantee was repayed. EDA has taken action to obtain a final report and audit.

Two other grants amounting to about \$19 million had no progress reports on file. One project manager said he was unaware that progress reports were required; the other said his total workload was too heavy, which prevented him from monitoring the title IX grant. The Atlantic region title IX

coordinator said that the region's monitoring of grantee progress has been difficult because of differences in reporting periods. Grants approved in 1975 required annual reports starting December 31, 1975, and annually thereafter for the period of the grant. Grants approved in 1976 and 1977 required annual reports starting 1 year from the date of grant approval.

In some instances, grantee reports have been submitted containing inadequate data to measure the grant's effectiveness. For example, Virginia submitted the one annual report required by the grant agreement for a loan to a company to avoid going out of business. However, the report only provided data on the loan repayments made to date. There was no mention of the number of jobs saved or created--the primary goal of the assistance. A Virginia official agreed that the report did not reflect the success of the grant but stated that EDA had never requested additional data.

EDA's attempts at collecting data and/or followup on grantee progress have been haphazard. For example, in June 1977, the Atlantic region wrote to 12 grantees--who were included in our survey--stating that title IX required an annual report to the Congress and that the current report was being drafted. The region requested grantees to send various data showing to what extent they had achieved their goals and a general evaluation of the effectiveness of title IX assistance. Only 6 of the 12 grantees answered, but EDA did not try to get reports from the 6 who did not respond. Furthermore, EDA did not include any data from the responding grantees in the title IX annual report to the Congress.

Our findings were discussed with EDA's national title IX coordinator, who said that monitoring of title IX grants is weak and agreed that improvement is needed in grantee compliance with reporting requirements.

THE CONGRESS NEEDS DATA
ON TITLE IX'S EFFECTIVENESS

The title IX legislation requires the Secretary of Commerce to submit an annual report to the Congress but does not specify the data to be reported.

The 21 grants we reviewed in the Atlantic region for 1975-77 have had different levels of success in achieving planned goals, as follows:

- Seven grants have not been effective in helping communities adjust to economic problems.
- Seven grants have been successful in helping communities adjust to economic problems.
- Seven grants have not progressed sufficiently or data was not available to measure effectiveness.

Instead of providing the Congress with this information, the Secretary's annual reports of 1975-78, merely reiterated the intended purpose of the grants approved during the year. The reports generally provided narrative highlights for several of the grants, illustrating the problems addressed and adjustment strategies proposed by the grant, and listed the remaining grants by EDA region with short descriptions of problems and planned solutions. The reports provided little, if any, data on grants approved before the reporting year.

The introduction to the 1975 annual report recognized that any review would be premature because 1975 grants had only recently been approved. The Secretary said that the next annual report would include the required evaluation and recommendations, but the reports for 1976-78 generally covered only those grants approved during the reporting year. The promised evaluation of 1975 and subsequent grants was not included.

The national title IX coordinator said that the annual reports to the Congress were never intended to evaluate the program but rather to recount what occurred during the year. For this reason, developments which resulted in grants being deemed successful or unsuccessful were not included in the reports.

The current status of many of the 21 grants analyzed is significantly different than reported in the annual reports. Examples of some grants less effective in achieving planned goals which had no followup reporting in the title IX annual report are discussed below.

In June 1975, an \$8.2 million grant was approved to help Rhode Island adjust to closings and cutbacks at various naval facilities. The 1975 annual report described the State's plan to find a private shipbuilder to operate the facilities. The State in its grant application estimated that 800 jobs would be created within 2 years of the project's approval.

After almost 4 years, EDA has yet to disburse any of the \$8.2 million and few jobs have been provided at the facilities. Lack of financing for an environmental impact study and the Navy's indecision about declaring the facilities excess have plagued the grantee. The State has now decided to allow the private shipbuilder to develop as well as operate the facilities. In April 1979, the grant was amended to transfer \$6.5 million into a revolving loan fund, making the money available to the shipbuilder for the facilities' development.

In September 1976, Massachusetts received approval for a \$6.4 million grant. The 1976 annual report defined the grant's purpose as mainly to establish employment opportunities by rehabilitating port facilities crucial to the State's fishing industry. It described the decline in the number of oceangoing fishing vessels and fishermen due to overfishing by foreign countries and predicted the collapse of the fishing industry without grant assistance.

As of March 1979--over 2-1/2 years after grant approval--EDA had disbursed only \$140,000 and no new jobs had been generated. Unresolved differences between State agencies and problems with the location of the fish processing facility delayed the project. Because of the delays, inflation has reduced the value of title IX funds, and either the project's scope may be reduced or more local funds may be needed to cover a cost overrun.

In August 1976, a Pennsylvania county received approval for a \$6.2 million grant. The 1976 annual report includes data describing the county's need for assistance because a plant closed after being destroyed by a 1972 flood. The funds were to attract new and expanding businesses by rehabilitating parts of the plant into a modern industrial complex. According to the county's grant application, 2,400 people lost jobs when the plant closed.

As of April 1979, EDA had disbursed over 91 percent of the \$6.2 million, and most of the renovated buildings were ready for tenants. The county has been slow in marketing the industrial plaza, and new tenants have been hard to find. Estimates are that the grant resulted in less than 25 jobs. However, the grant did provide a large number of construction jobs during the renovation, and the county is negotiating with prospective tenants who could offer 260 more jobs.

Examples of two grants that succeeded in meeting planned goals which have had no followup reporting in the title IX annual report are discussed below.

In May 1976, a \$13 million grant was approved for New Jersey to establish a revolving loan fund. The 1976 annual report describes how the State loaned the \$13 million to employees of a New Jersey company to purchase the company's stock and avert a threatened closure of four facilities employing about 1,000 persons.

The company has maintained the employment level of about 1,000 people. These saved jobs represent workers who, for the past 3 years, have remained taxpayers rather than tax liabilities. The company has repaid \$260,000 of the loan on schedule; the State has relented \$150,000 of this amount to assist two other distressed companies.

Virginia received a \$6 million grant approved in September 1977 to establish a revolving loan fund. The 1977 annual report states that the State loaned the \$6 million to avert threatened closure of a private company with a loss of 850 jobs. A group of company officials used the loan together with other financing to purchase the company and keep it operating. Prior to grant approval, the company was in the process of dismantling and employment was down to 520 people.

On the verge of liquidation 21 months ago, the company is now prospering and employment is up from 520 to 686. According to the loan repayment schedule, the company has repaid \$270,000, of which \$236,000 has been relented to help other economically troubled employers.

CONCLUSIONS AND RECOMMENDATIONS

The majority of grantees have not submitted progress reports annually as required by the title IX legislation. In some instances, grantees submitted reports containing inadequate data to measure the grant's effectiveness in achieving planned goals. EDA has not made sufficient effort to collect data on the progress of title IX grants. Further, EDA evaluation of grantee progress has been difficult because of the different reporting periods imposed on grantees.

The Secretary's annual reports do not provide the Congress with data on title IX's effectiveness. The reports merely reiterate the intended purpose of the grants approved during the year. For the most part, EDA has followed the practice of not reporting on the effectiveness of prior year grants.

Although title IX legislation does not specify the data that the Secretary should include in the annual report to the Congress, we believe that the report provides an ideal mechanism for keeping the Congress informed. An annual report that includes a consolidation of properly verified grantee progress reports appears to be a logical extension of the grantee reporting system.

The Congress needs data on title IX's effectiveness in helping communities adjust to economic problems. After authorizing this program and appropriating substantial funds for title IX, the Congress is entitled to more information on what these moneys achieved. Feedback on less effective as well as successful uses of title IX assistance enables the Congress to plan the future direction of the program better.

We recommend that the Secretary direct EDA to:

- Require grantees receiving title IX assistance to submit progress reports showing program results covering standardized reporting periods.
- Assure that project managers conduct sufficient followup on title IX grantees to control annual

progress reporting and confirm, to the extent possible, the validity of the data reported by grantees.

--Provide the Congress with information on the overall effectiveness of the title IX program including feedback on unsuccessful as well as successful uses of title IX assistance.

OTHER OBSERVATIONS

Loans to prevent plant closures
in tune with title IX intent

We noted that communities seem to benefit more when title IX grants are used to prevent plant closures rather than adjust to actual plant closures.

The 21 title IX grants we reviewed could be classified readily as either loan or construction related. EDA disburses funds for loan-related grants much more quickly than for construction-related grants. The following table provides disbursement data for the years 1975-77.

<u>Year approved</u>	<u>Grants</u>		<u>Disbursements (as of March 9, 1979) (note a)</u>					
	<u>Number</u>	<u>Loan</u>	<u>Construction grants</u>			<u>Loan-related grants</u>		
			<u>Grant amount</u>	<u>Disbursed</u>	<u>Percent disbursed</u>	<u>Grant amount</u>	<u>Disbursed</u>	<u>Percent disbursed</u>
			<u>(millions)</u>			<u>(millions)</u>		
1975	5	2	\$20.3	\$ 6.4	31.6	\$ 2.2	\$ 2.2	100
1976	3	4	23.0	9.6	41.8	26.3	26.3	100
1977	<u>6</u>	<u>1</u>	<u>26.9</u>	<u>4.1</u>	15.2	<u>6.4</u>	<u>6.4</u>	100
Total	<u>b/14</u>	<u>7</u>	<u>\$70.2</u>	<u>\$20.1</u>	28.7	<u>\$34.9</u>	<u>\$34.9</u>	100

a/All figures rounded.

b/Two grants contained both construction and loan segments with construction being the major dollar amount.

For four of the seven loan-related grants, EDA disbursed the entire grant within days of its approval. Communities have used the grants for loans to help companies prevent plant closures and retain employees. The examples of successful title IX grants discussed on page 7 of this letter support this point. This use of the grants appears to be more in tune with the title IX intent of a quick response to an economic problem.

Only about 29 percent of the \$70 million for the 14 construction grants has been disbursed. Construction grants, usually used to build or renovate industrial sites after a plant has actually closed, appear to be less effective in quickly creating or reestablishing employment opportunities. The examples of less effective grants discussed on pages 6 and 7 support this point. This use of the grants does not appear to be as effective in meeting title IX's intent since solutions are long range in nature.

Proposed legislation would
change title IX program

EDA's entire program is currently under congressional review. Senate bill 914, introduced on April 5, 1979, would consolidate the title IX program into a new title II. The national title IX coordinator told us that some of the unique uses of title IX authorized under the existing legislation, such as unemployment compensation, rent supplements, and mortgage payment assistance, will be eliminated by the new bill.

This new bill would also require the Secretary of Commerce to make a comprehensive and detailed annual report to the Congress of EDA's program operations. However, the bill does not describe what the annual report should contain. We believe the Secretary of Commerce should seek clarification from the Congress as to its desire for data and choose the most appropriate means of providing it.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to

submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this letter to the four committees mentioned above and to the Senate Committee on Environment and Public Works; the Subcommittee on Economic Development, Senate Committee on Environment and Public Works; the House Committee on Public Works and Transportation; and the Subcommittee on Economic Development, House Committee on Public Works and Transportation. These committees expressed interest in obtaining feedback on the effectiveness of the title IX assistance to communities.

Our findings were discussed with EDA officials who generally agreed with the report's content, and their views were considered in preparing this report. We appreciate the cooperation and courtesies extended to our staff during this study.

Sincerely yours,

A handwritten signature in cursive script that reads "Henry Eschwege". The signature is written in dark ink and is positioned above the typed name and title.

Henry Eschwege
Director