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ECONOMIC
DEVELOPMENT
ADMINISTRATION

Remediation Activities
Account for a Small
Percentage of Total
Brownfield Grant
Funding



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Highlights

Highlights of [GAO-06-7](#), a report to congressional committees

Why GAO Did This Study

The Economic Development Administration (EDA) Reauthorization Act of 2004 (P. L. 108-373) included a requirement that GAO evaluate grants made by EDA for the economic development of brownfield sites. More than 450,000 brownfield sites—properties where redevelopment or reuse may be complicated by real or perceived environmental contamination—are scattered across the United States.

This report discusses specifics of grants made by EDA at brownfield sites, including (1) the types, extent, and amount of EDA funds used for remediation activities; (2) the environmental standards and agencies involved; and (3) the economic development activities, standards, and impact.

What GAO Recommends

GAO recommends that the Secretary of Commerce (1) require all EDA regional offices to use special conditions concerning the remediation of hazardous substances and (2) ensure that EDA staff verify the estimated jobs and private-sector investment for proposed projects.

In commenting on a draft of this report, the Department of Commerce agreed with the report's findings and provided technical comments on the recommendations which are discussed at the end of the report.

www.gao.gov/cgi-bin/getrpt?GAO-06-7.

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 ADMINISTRATION

Remediation Activities Account for a Small Percentage of Total Brownfield Grant Funding

What GAO Found

Remediation activities conducted at EDA-funded brownfield sites appeared to be incidental to the purpose of the overall project and most often consisted of the removal and disposal of asbestos containing materials, underground storage tanks, or lead-based paint. We estimate that remediation activities were conducted at 54 percent of EDA-funded brownfield sites from fiscal year 1998 through 2004. Overall, we estimate that EDA used \$4.8 million or about 1.4 percent of its grant funds to pay for remediation activities at 28 percent of the brownfield sites during this period. Grantees, former property owners, or other agencies generally were responsible for most environmental remediation costs at these sites.

EDA regional environmental officers prepare environmental assessments to document a project's compliance with federal environmental requirements. In three of six EDA regional offices, we noted that the regional environmental officer routinely recommended various types of special conditions be added to grant awards concerning the remediation of hazardous substances that provide more specific assurance on a project's compliance with environmental standards. EDA requires grant recipients to certify that contractors will comply with applicable environmental requirements and works with federal, state, and local environmental agencies to ensure compliance.

EDA grants to brownfield sites most often funded infrastructure improvements, such as upgrades to water and sewer lines, construction of streets and curbs, or installation of signage and lighting. EDA evaluates proposed projects competitively based on standard guidelines that emphasize increased numbers of relatively high-skill, high-wage jobs or private sector investment; strong leadership and project management experience; and matching funds from local governments or nonprofits. Data were not available on the reported economic development impact for most of the grants that GAO reviewed. Where data were available, the reported economic development data varied significantly when compared with initial project estimates for some grants. In some instances, permanent jobs or private sector investment estimates for proposed projects did not appear to be verified.

Before and after Photographs of EDA-Funded Business Incubator (Philadelphia, PA)



Sources: EDA (left photo); GAO (right photo).

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Abbreviations

CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
DOD	Department of Defense
DOE	Department of Energy
EDA	Economic Development Administration
EPA	Environmental Protection Agency
HUD	Department of Housing and Urban Development
NEPA	National Environmental Policy Act of 1969
OPCS	Operation and Planning Control System
REO	Regional Environmental Officers

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United States Government Accountability Office
Washington, D.C. 20548

October 27, 2005

The Honorable James M. Inhofe
Chairman
The Honorable Jim Jeffords
Ranking Minority Member
Committee on Environment and Public Works
United States Senate

The Honorable Don Young
Chairman
The Honorable James L. Oberstar
Ranking Democratic Member
Committee on Transportation and Infrastructure
House of Representatives

This report responds to a requirement in the Department of Commerce's Economic Development Administration (EDA) Reauthorization Act of 2004 that GAO evaluate grants made by EDA for the economic development of brownfield sites.¹ Brownfield sites—areas where redevelopment or reuse may be complicated by real or perceived environmental contamination—including former industrial and commercial properties, gas stations, and military sites. More than 450,000 of these sites are scattered across the United States. Because of the stigma of existing or potential contamination, brownfield sites often remain unproductive, blighting communities while developers resort to the use of “greenfields,” or open spaces outside of cities. However, brownfield sites often offer a number of redevelopment advantages, including competitive locations, established infrastructure, untapped customer and labor markets, easy access to multiple modes of transportation, and unique development opportunities, such as historic and culturally significant buildings. For the past 40 years, EDA has provided support for the redevelopment of brownfield sites as a core component of its mission to aid the nation's most economically distressed communities.²

¹Pub. L. No. 108-373, § 603, 118 Stat. 1756, 1769-1770 (2004).

²According to EDA, distress may exist in a variety of forms, including but not limited to the following: high levels of unemployment, low-income levels, large concentrations of low-income families, significant declines in per capita income, substantial loss of population because of the lack of employment opportunities, large numbers (or high rates) of business failures, sudden major layoffs or plant closures, trade impacts, military base closures, natural or other major disasters, or depletion of natural resources.

Historically, EDA's brownfield redevelopment activities have focused on sites after assessment and remediation (cleanup of contaminated or hazardous materials) have taken place. However, EDA has stated that current statutory authorities allow it to provide support for site assessment and incidental remediation activities at brownfield sites.

To evaluate the grants made by EDA for the economic development of brownfield sites, we (1) determined the types of remediation activities conducted, the extent to which projects funded by EDA at brownfield sites included remediation activities, and the amount of EDA grant funds used for those activities; (2) identified the environmental standards applied to projects, the role of environmental agencies (federal, state, and local), and the amount of public participation; and (3) identified the economic development activities conducted, the economic development standards applied to projects, and the reported economic development impact.

The EDA Reauthorization Act of 2004 directed GAO to evaluate EDA grants for the economic development of brownfield sites during the 10 years before the law came into effect [1994 to 2004]. As agreed with the committees of jurisdiction, we limited our analysis for this report to the grants EDA awarded to brownfield sites from fiscal years 1998 through 2004, because EDA did not begin coding these grants in its data systems with a special brownfield code until 1998. The act also directed GAO to use the term "brownfield site" as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA). CERCLA defines a brownfield site as real property that is or may be contaminated by a hazardous substance that could complicate redevelopment efforts.³ CERCLA does not include, under the brownfield definition, sites listed on the Environmental Protection Agency's (EPA) National Priorities List; sites subject to environmental enforcement actions; and sites under the custody or control of the federal government. However, EDA codes certain grants as brownfield sites, even though the sites are not included under the CERCLA definition. These grants are primarily for projects at former military or Department of Energy (DOE) installations that were still under the control of the federal government when the grant was made. In some cases, the federal government transferred ownership of the brownfield site before the project was completed. As a result, this report presents separate analyses of (1) all grants EDA coded as brownfield sites and (2) grants EDA

³Sec. 42 U.S.C. § 9601(39)(A).

coded as brownfield sites that are specifically included under the CERCLA definition.

Unlike EPA and the Department of Housing and Urban Development (HUD), which administer specific grant programs targeted at brownfields site redevelopment, EDA does not have a specific brownfield program. Instead, the agency provides grants for brownfield-related activities under three programs:

- The Public Works Program empowers distressed communities to revitalize, expand, and upgrade their physical infrastructure to attract new industry, encourage business expansion, diversify local economies, and generate or retain long-term private sector jobs and investment. For example, the program has provided grants for investment in industrial and business parks, port facilities, and rail spurs as well as for the redevelopment of brownfields.
- The Economic Adjustment Program helps state and local interests design and implement strategies to adjust or bring about change to an economy. This program focuses on areas that have experienced or are under threat of serious structural damage to the underlying economic base—for example, from foreign trade competition, the actual or threatened closure of a principal industry or company, a catastrophic natural disaster, or a terrorist attack.
- The Defense Adjustment Program, a subset of the Economic Adjustment Program, helps communities impacted by base closures, defense contract reductions, or both to rebuild and diversify their economies. EDA receives funding for this program through direct appropriated funding or transfers of funds for defense projects from the Department of Defense (DOD) Office of Economic Adjustment.

To meet our objectives, we reviewed the project files for a random sample of 140 of the 257 construction-related grants that EDA coded as brownfield sites from fiscal years 1998 through 2004.⁴ We visited EDA regional offices in Atlanta, Austin, Chicago, Denver, Philadelphia, and Seattle to conduct

⁴According to EDA, regional office staff use the basic CERCLA definition and professional judgment in coding grants as brownfield sites. As a result, our estimates regarding the number of brownfield sites where remediation activities were conducted and the dollar amount and percentage of EDA funding used for remediation activities might be underestimated if EDA staff did not properly code certain grants as brownfield sites.

our file reviews. During these reviews, we obtained information on the remediation activities conducted and the amount of EDA grant funds used for these activities, economic development activities conducted and economic development impacts, and amount of public participation in the projects. We used the 140 construction-related grants in our sample to make estimates about the entire population of EDA grants coded as brownfield sites and the subpopulation of EDA grants with brownfield coding that were included under the CERCLA brownfield definition. We interviewed officials from EDA to obtain a better understanding of the economic development and environmental standards applied to projects and the role of federal, state, and local environmental agencies in the projects. We also interviewed officials from EPA and HUD for information about each organization's brownfield redevelopment activities.

We conducted our work from January 2005 through September 2005 in accordance with generally accepted government auditing standards. Appendix I contains a detailed description of our scope and methodology.

Results in Brief

We found that remediation activities at EDA-funded brownfield sites appeared to be incidental to the purpose of the overall projects and included cleanup activities such as the removal and disposal of asbestos-containing materials, underground storage tanks, lead-based paint, and contaminated soil. Overall, we estimated that of the 257 construction-related grants with brownfield coding that EDA made from fiscal years 1998 to 2004, approximately 139 (54 percent) of them included some kind of remediation activity.⁵ However, EDA contributed funding for remediation activities at only an estimated 72 (28 percent) of these brownfield sites. Grantees, former property owners, or other agencies generally were responsible for most remediation costs. We also estimate that of the 257 construction-related grants, 191 (74 percent) met the CERCLA definition at the time the grants were awarded, and remediation activities were conducted at 100 (52 percent) of the sites. Further, our review of a sample of 140 construction-related EDA grants with brownfield

⁵Estimates based on our sample of EDA grants are subject to sampling error. Different results could have been obtained with a different sample. Unless otherwise noted, all percentage estimates in this report have 95 percent confidence intervals of plus/minus 8 percentage points or less. Other estimates, such as dollar estimates, have 95 percent confidence intervals that are within plus/minus 50 percent of the estimate itself. Appendix I contains additional information on the sample design and reliability of estimates.

coding showed that EDA did not provide a significant amount of funding for remediation activities and that projects funded through the Defense Adjustment Program generally required more funding for remediation activities than projects funded through EDA's Public Works or non-Defense related Economic Adjustment Programs. Total funding for all construction-related grants with brownfield coding that EDA awarded in fiscal years 1998 through 2004 was \$341.2 million. Of this amount, an estimated \$4.8 million (or about 1.4 percent) was used for remediation activities, including \$3.7 million for remediation activities EDA funded primarily at former military or DOE sites under its Defense Adjustment Program and \$1.1 million for remediation activities funded through regular EDA appropriations. Similarly, we estimate that EDA provided about \$226 million to brownfield sites that met CERCLA standards and used \$3.3 million (or about 1.5 percent) of it for remediation activities, including \$2.3 million for remediation activities under the Defense Adjustment Program and \$1 million for remediation activities funded through Public Works or non-Defense related Economic Adjustment Programs.

EDA is required to ensure that environmental assessments of its brownfield projects comply with all federal environmental statutes and regulations. In turn, EDA requires that grant recipients certify that their contractors and subcontractors will comply with all applicable environmental laws and regulations and works with federal, state, and local environmental agencies to ensure that these requirements are met. EDA regional environmental officers (REO) prepare an environmental assessment to document a project's compliance with federal environmental requirements. As part of the assessment, the REO evaluates whether the project site contains any hazardous substances that might require remediation, using documentation submitted by grant applicants. We noted that three of the six REOs (in Atlanta, Chicago, and Seattle) routinely recommended adding special conditions to grant awards that grant recipients provide evidence to the government that hazardous substances had been remediated in accordance with environmental standards not identified in the standard terms and conditions of the awards. The REO in EDA's Chicago office told us that special conditions, while not required, provided EDA with more specific assurance that a project complied with standards for the remediation of hazardous substances. EDA does require that grant applicants provide evidence that the public is aware of proposed projects, but does not impose a specific public participation requirement for grants. For most of the grants we reviewed, we found evidence that efforts were being made to inform the public of proposed projects through venues such as newspaper articles, public meetings, and public notices.

EDA brownfield grants were used for various economic development purposes, most often for infrastructure improvements and building demolition or renovation that resulted in the development of industrial and business parks, business incubators, training facilities, and tourism and recreation facilities. EDA evaluates proposed construction projects competitively based on standard investment policy guidelines that emphasize increased numbers of relatively high-skill, high-wage jobs or private sector investment, strong leadership and project management experience, and matching funds from local governments or nonprofits. EDA grant applicants are required to demonstrate how proposed projects will meet or exceed these guidelines. We found that data were not available on the reported economic development impact for most of the grants that we reviewed because the projects either had not been completed or had not been completed long enough to establish results. However, the reported economic development data that were available sometimes varied significantly from the initial project estimates. Further, while regional staff are required to verify permanent job and private sector estimates, we found that in some instances the estimates for proposed projects did not appear to be verified. For example, one EDA grant we reviewed for the development of a biotechnology center estimated that the project would generate 400 permanent jobs. But this estimate included 300 students who were expected to graduate from the center within 5 years and whose jobs would therefore not be a direct result of the project.

To better ensure that remediation activities are conducted in accordance with applicable regulations and to obtain better economic development impact data, this report recommends that the Secretary of Commerce (1) require all EDA regional offices to use special conditions concerning the remediation of hazardous substances and (2) ensure that EDA staff verify the estimated jobs and private-sector investment for proposed projects.

In commenting on our draft report, the Deputy Secretary of Commerce wrote that the report accurately reflects EDA's role in supporting brownfield revitalization projects and that remediation activities are a small part of EDA's activities. Two of the comments addressed our recommendations. The first stated that adding special conditions would not change grantees' and EDA's obligations to ensure that projects comply with applicable laws and regulations. However, we found that half of EDA's regional offices were using special conditions with some success and believe it would be beneficial if all EDA regional offices adopted this best practice. The second comment questioned our recommendation that verification of projected jobs and private investment in initial applications

be strengthened, noting that the data for completed projects after 6 years were too limited. This recommendation is based on our findings that some initial estimates did not appear to be effectively substantiated. We continue to believe that substantiating these estimates would help EDA make more accurate funding decisions and increase the chances of EDA funding projects with the greatest potential impacts.

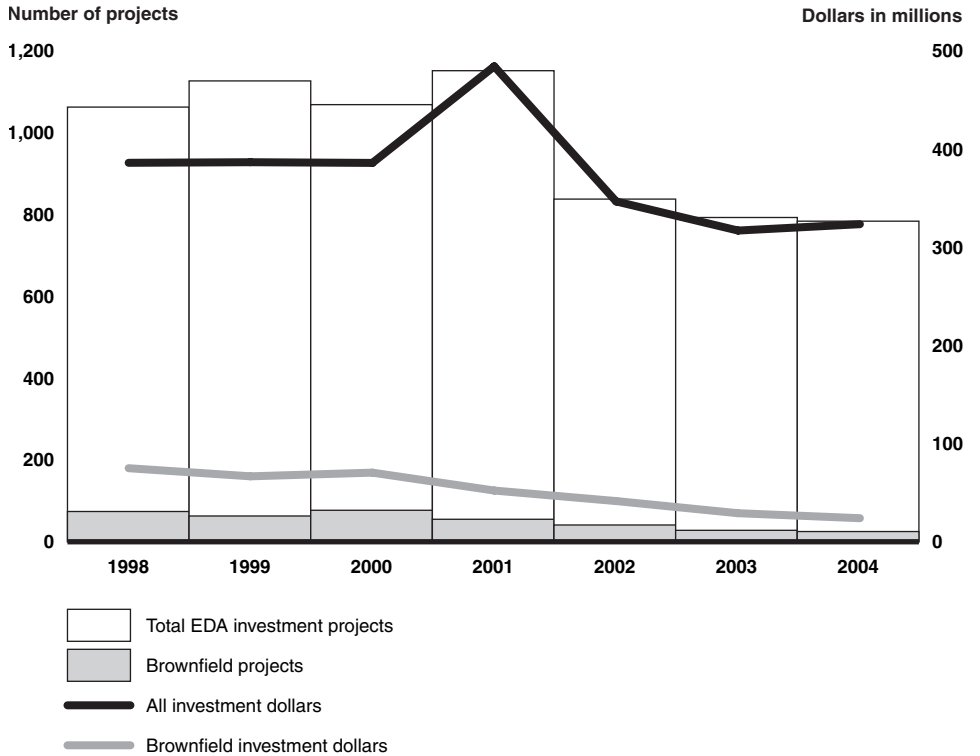
Background

EDA was established in 1965 within the Department of Commerce to generate jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas of the United States.⁶ EDA fulfills its mission through grants to state and local governments, Indian tribes, educational institutions, nonprofit organizations, and others. EDA grants, including those in support of brownfield redevelopment, are intended to create wealth and minimize poverty by promoting a business environment that attracts private capital investment and creates relatively higher-skill, higher-wage jobs.

EDA grants to sites coded as brownfields represent a small portion of the agency's total grants portfolio. EDA awarded 363 grants totaling \$358.8 million to sites coded as brownfields (including construction and planning grants) from fiscal years 1998 through 2004. EDA grants to sites coded as brownfields represented 13.6 percent of the \$2.6 billion of the agency's total grants portfolio of 6,826 grants EDA awarded during this period (fig. 1).

⁶Public Works and Economic Development Act of 1965, Pub. L. No. 89-136, 79 Stat. 552 (1965) *codified at* 42 U.S.C. § 3121 *et seq.*

Figure 1: EDA Grants to Brownfield Projects Compared with Total EDA Grants, Fiscal Years 1998-2004



Source: GAO analysis of EDA data.

In 1998, EDA began coding grants to brownfield sites with a special initiatives code, 1 of more than 100 such codes EDA uses to categorize its grants.⁷ EDA generally uses the same CERCLA definition of a brownfield site as EPA, but it also codes as brownfield sites some venues that are not included under the CERCLA definition of a brownfield site, primarily former military or DOE installations that are still under the control of the federal government at the time the grant is awarded. Under its current statutory authorities EDA can make grants to these sites without requiring

⁷For example, EDA has also developed special initiative codes for eco-tourism, enhanced regional competitiveness, the Alaska fisheries disaster of 1998, and Hurricane Floyd in 2001.

that the grant recipient have title to the property.⁸ In such cases, EDA generally requires that the grant recipient provide evidence that the property will be transferred at a future date or obtain a leasehold interest in the property until it transfers.

EDA has six regional offices across the United States that administer its grant programs. Each regional office accepts preapplication investment proposals from prospective grantees. Based on established regulations, EDA regional officials encourage only those investment proposals that will significantly benefit areas experiencing or threatened with substantial economic distress to continue with the application process. Before receiving a grant, an entity must submit a preapplication proposal to an EDA regional office responsible for that area. After preliminary reviews by various EDA regional office staff, each preapplication proposal is considered by the regional Investment Review Committee, which consists of the division chiefs and other regional office staff, to ensure that the entity is eligible to receive funds and that the project is likely to provide benefits meeting EDA's criteria. The committee decides whether the entity should be invited to submit an application, but EDA headquarters reviews the committee's recommendation action for quality assurance. Grant funds are awarded upon completion of the application.

EDA Has Provided Limited Funding for a Variety of Remediation Activities at Brownfield Sites

We found that remediation activities at brownfield sites typically included the removal and disposal of materials containing asbestos, underground storage tanks, lead-based paint, and contaminated soil. Generally, these activities have been a small part of much larger projects that involved infrastructure improvements, renovations of buildings, or complete demolition of existing structures that do not meet current building codes. Overall, we estimate that remediation activities were conducted at about half of the 257 construction-related grants that EDA coded as brownfield sites from fiscal years 1998 through 2004. EDA provided funding for remediation activities at only about a quarter of the sites, using an estimated 1.4 percent of its funding to pay for these activities because these costs were generally covered by grantees, former property owners, or other agencies. Our estimates showed similar percentages for the subset of brownfield sites meeting CERCLA standards and indicated that EDA spent more for remediation activities on projects funded through the Defense

⁸42 U.S.C. § 3142.

Adjustment Program than for projects funded through its other programs (Public Works or non-Defense related Economic Adjustment Programs).

Although remediation activities took a variety of forms, removing and disposing of materials containing asbestos was the primary activity (table 1).

Table 1: Types of Remediation Activities Conducted at EDA-Funded Brownfield Sites, Fiscal Years 1998-2004

Remediation activity conducted	Estimated percent of projects ^a
Asbestos abatement	84
Underground storage tank removal	35
Lead-based paint abatement	17
Other ^b	46

Source: GAO analysis of EDA data.

^aPercentages do not add to 100 percent because some projects required multiple types of remediation.

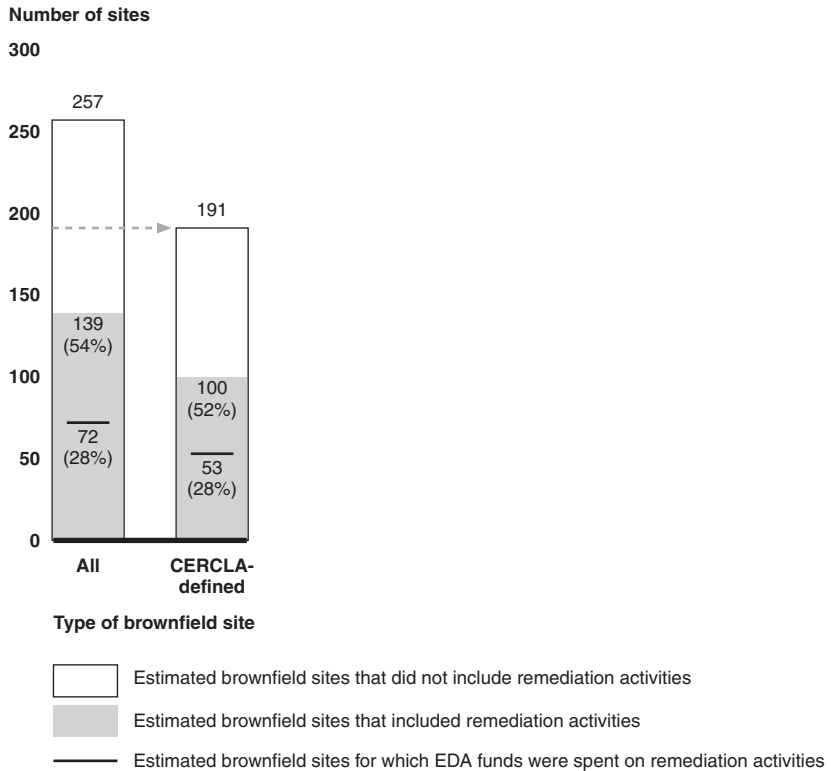
^bOther remediation activities included removing and disposing of contaminated soil or polychlorinated biphenyl materials and cleaning up contaminated groundwater.

EDA officials said that remediation activities were often necessary to the redevelopment of brownfield sites. For example, asbestos-containing materials are often found in buildings constructed before 1970 and must be removed if the structures are to conform to EPA standards. EPA has regulated the use of asbestos since 1973 through various laws such as the Clean Air Act and the Toxic Substances Control Act.⁹

On the basis of our sample of 140 EDA grants made to brownfield sites between 1998 and 2004, we estimated that remediation activities were conducted at 54 percent of the sites EDA coded as brownfields and at 52 percent of the sites that met the CERCLA definition. We also estimated that EDA provided funding for remediation at 28 percent of all the sites coded as brownfields (fig. 2).

⁹Clean Air Act, Pub. L. No. 88-206, as amended, *codified at* 42 U.S.C. § 7401 *et seq.* and Toxic Substances Control Act, Pub. L. No. 94-469, as amended, *codified at* 15 U.S.C. § 2601 *et seq.*

Figure 2: Remediation at EDA-Coded Brownfield Sites, Fiscal Years 1998-2004



Source: GAO analysis of EDA data.

EDA officials said that they generally tried to limit the amount of grant funds that were used for remediation activities, per an EDA Directive effective July 1992 and later clarified in a memorandum from the Acting Assistant Secretary of EDA in June 2000, which states that EDA typically participates in hazardous waste cleanups as part of a larger economic development project, but not as the principal activity of the EDA funded activity. As previously stated and further shown in the examples presented below, we generally found this to be true for the projects we reviewed. EDA officials explained that they were in business to redevelop blighted areas in order to create higher paying jobs and promote private investment and that remediation was an incidental EDA activity. They noted that former property owners or other federal agencies, such as EPA or HUD that have specific brownfield grant programs, should help fund remediation at sites requiring a significant amount of environmental cleanup. Specific examples

where EDA funded remediation activities that appeared to be incidental to the larger projects include the following:

- A project in Cumberland, Maryland, funded in 2002, that met the CERCLA definition of a brownfield site required environmental remediation work to renovate an existing building for use as a micro-enterprise business incubator and training facility. From EDA's investment of \$900,000 in the project, about 2 percent of EDA's funds were used to remove asbestos and lead paint found throughout the building being renovated.
- A 1999 project in Atlanta, Georgia that met the CERCLA definition of a brownfield site received EDA grant funds to help construct a proposed business park, including a roadway, and a water line and sanitary sewer line. During the project, the contractors discovered the buildings scheduled for demolition contained asbestos, and the soil underneath the path of the road was contaminated with lead and petroleum. EDA agreed to participate only in cleanup activities associated with demolition of the buildings that were in the footprint of the EDA improvements (asbestos and removal of contaminated soil). Of EDA's investment of \$1.2 million, about 7 percent of the funds were used for remediation.

Other federal agencies and grantees played a larger role than EDA in cleaning up some sites:

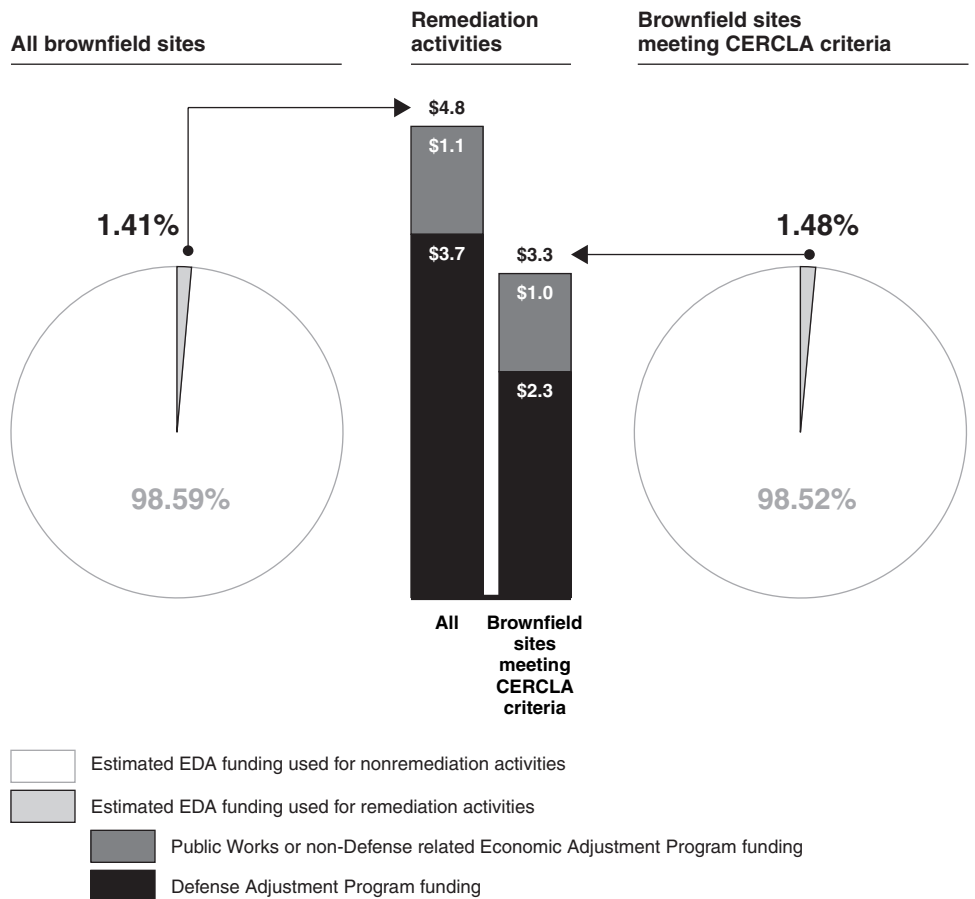
- EDA provided \$1.57 million to the Lawrence Economic Development Corporation in 2002 for infrastructure improvements (water lines, sanitary sewers, and roads) to a brownfield site in South Point, Ohio, that was listed on EPA's National Priority List. EDA's project, located on about one-third of this Superfund site, required removing contaminated soil, burying the soil onsite, and covering it with a clay cap. EDA did not provide any funding for these remediation activities. Instead, the previous owner paid about \$1 million for the remediation. The federal and state EPAs were responsible for monitoring the remediation. Although the site was completely remediated, it did not meet the CERCLA definition for a brownfield site because it remains on EPA's National Priority List since EPA plans to continue performing groundwater testing for an extended period of time, possibly another 20 years.

-
- In 2000, EDA provided \$1.1 million funding through the Defense Adjustment Program to develop infrastructure (storm drains, new streets and sidewalks, street lights, sewer lines, and water lines) for an industrial park in Pomona, California. This site required removal of asbestos, underground storage tanks, and lead paint. Because the project was located on the former Naval Industrial Reserve Ordnance Plant and the Navy still legally owned the land, the Navy paid for all remediation costs. The California Department of Toxic Substance Control provided documentation to EDA that it had provided regulatory oversight for the necessary remediation activities. This project did not meet the CERCLA definition of a brownfield site since the land was still owned by the Department of the Navy.

Appendix II contains additional details on the Atlanta project and examples of remediation at other EDA sites coded as brownfields.

Overall, we found that of the \$341 million EDA provided to sites coded as brownfields from fiscal years 1998 through 2004, an estimated 1.4 percent of its funding, or \$4.8 million, was used for remediation activities. Similarly, of the estimated \$226 million for sites coded as brownfields meeting the CERCLA definition, we estimate that EDA used about 1.5 percent, or \$3.3 million, of its funding for remediation activities (fig. 3).

Figure 3: Analysis of EDA Funding to Brownfield Sites, Fiscal Years 1998-2004
Estimated grant funds (in millions)



Source: GAO analysis of EDA data.

We also analyzed EDA grant funds spent on remediation activities through regular EDA appropriations and appropriated or transferred DOD funding. EDA receives direct appropriated or transferred funding under the Defense Adjustment Program for projects at former military or DOE installations that have closed and are in the process of being redeveloped. These sites often require extensive remediation. Our analysis demonstrated that EDA has spent more for remediation activities on projects funded through the Defense Adjustment Program than for projects funded through its Public Works or non-Defense related Economic Adjustment Programs—\$3.7

million and \$1.1 million, respectively (fig. 3). From fiscal years 1998 through 2004, EDA received \$135 million in direct-appropriated or transferred funding for construction-related projects under the Defense Adjustment Program, or about 40 percent of the total grant funding provided to sites coded as brownfields during this period.

Our sample of 140 grant awards contained 46 grants funded through the Defense Adjustment Program. For seven of these grants, more than 10 percent of the funding was designated for remediation activities, including two grants made to brownfield sites that were included under the CERCLA definition at the time the grants were awarded. For one of these grants, \$1.46 million or 29 percent of the funding was earmarked for remediation activities (see the Philadelphia case study in app. II). For projects funded through direct appropriations under the Defense Adjustment Program, EDA has the discretion to choose and administer the projects in accordance with their Economic Adjustment Program authority. However, according to EDA officials, the majority of EDA projects in the Defense Adjustment Program are undertaken with transferred funding pursuant to a memorandum of understanding between EDA and DOD's Office of Economic Adjustment. The officials added that these projects are often funded pursuant to a targeted DOD appropriation, and EDA is generally left with little or no up-front decisional authority over which projects should receive funding. In addition, the officials stated that in these projects, DOD's Office of Economic Adjustment provides EDA with a general framework for the project; and EDA, which primarily serves as the grant administrator, works directly with the grantee to establish the specific scope of work and controls the disbursement of funds for eligible expenses.

Some EDA Regions Have Developed Processes to Better Ensure Compliance with Environmental Remediation Standards

EDA is required to ensure that environmental assessments of its projects coded as brownfields comply with various federal environmental requirements. EDA relies on federal, state and local environmental agencies to ensure that grant recipients and their contractors and subcontractors comply with applicable environmental standards. REOs prepare environmental assessments to document compliance with federal environmental requirements and determine whether the project site contains any hazardous substances that might require remediation. We noted that the REOs at three of EDA's six regional offices routinely recommended adding special conditions to grant awards concerning the remediation of hazardous substances in order to provide EDA with more specific assurance that projects were complying with environmental

standards. We also noted that while EDA requires grant applicants to provide evidence that the public is aware of proposed projects, it does not have a specific public participation requirement.

Environmental Assessments Document That Projects Comply with Applicable Environmental Laws

Under the National Environmental Policy Act of 1969 (NEPA), EDA generally evaluates the likely environmental effects of brownfield projects it is proposing using a relatively brief environmental assessment or, if the action will be likely to significantly affect the environment, a more detailed environmental impact statement.¹⁰ These environmental assessments are conducted in accordance with federal environmental statutes and regulations.¹¹ To document a project's compliance with this act and other federal environmental requirements, REOs prepare environmental assessments to help ensure that adverse environmental impacts are mitigated or avoided to the extent possible. As part of the assessment, the REO reviews documentation from grant applicants to determine whether any hazardous substances are present at the project site that may require remediation activities. For example, grant applicants are required to certify on the Applicant Certification Clause (Form ED-536) whether a project site is contaminated by toxic or hazardous substances. The form includes questions related to the presence of asbestos-containing material, underground storage tanks, equipment (such as electrical transformers) containing polychlorinated biphenyls, and other hazardous substances. Grant applicants are also required to submit copies of any environmental surveys or inspection reports conducted for the project site and documentation from any investigations by federal, state, or local environmental agencies that are related to it.

In three regional offices (Atlanta, Chicago, and Seattle), we noted that REOs routinely recommended adding special conditions on the remediation of hazardous substances to grant awards. For example:

¹⁰NEPA, Pub. L. No. 91-190, as amended, *codified at* U.S.C. §§ 4321 *et seq.*

¹¹These statutes and regulations include, among others, CERCLA (Pub. L. No. 95-510, as amended, *codified at* 42 U.S.C. §§ 9601 *et seq.*); the Safe Drinking Water Act of 1974 (Pub. L. No. 92-523, as amended, *codified at* 42 U.S.C. §§ 300f *et seq.*); the Clean Air Act (Pub. L. No. 88-206, as amended, *codified at* 42 U.S.C. §§ 7401 *et seq.*); and the Resource Conservation and Recovery Act of 1976 (RCRA) (Pub. L. No. 94-580, as amended, *codified at* 42 U.S.C. §§ 6901 *et seq.*).

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- In 1998, EDA attached a special condition to a \$668,500 grant made to the city of Cleveland, Ohio and the Shorebank Enterprise Group for the renovation and expansion of an existing business incubator building to be used by new and emerging companies at a brownfield site that met the CERCLA definition. The condition stipulated that before the project closed and EDA made the final disbursement, the recipient would provide evidence satisfactory to the government that all asbestos had been disposed of in a manner that complied with applicable state and federal regulations.
 - In 1999, EDA attached a special condition to a \$750,000 grant to the city of Marquette, Michigan for infrastructure improvements to facilitate business revitalization in the central business district, including the replacement of water mains, sanitary sewer mains, sidewalks, and curbs at a brownfield site that met the CERCLA definition. The condition stipulated that the recipient agreed to remediate any soils found to contain regulated levels of contamination as defined by the Michigan Department of Environmental Quality, using procedures approved by the department.
 - In 1999, EDA placed another condition on a \$1,085,200 grant to Lenoir City and Loudon County Tennessee for the demolition of existing structures and construction of a new two-story building in the central business district at a brownfield site that met the criteria in CERCLA. The purpose of the new building was to house a satellite campus that included a community college, career center, city library, and business development center. This special condition required the recipient to furnish evidence satisfactory to the government that all asbestos and lead-based paint materials had been removed or contained from the property before construction started, in accordance with the National Emission Standards for Hazardous Air Pollutants and other appropriate standards and regulations.

The REO at EDA's Chicago regional office told us that special conditions concerning the remediation of hazardous substances provided EDA with more specific assurance that a project would comply with environmental standards not identified in the standard terms and conditions of EDA grant awards. The Chicago REO also told us that special conditions could be used to protect the government from liability if individuals were injured by exposure to hazardous substances at EDA-funded brownfield sites. The Chicago REO added that while such conditions were not required, they

were useful in emphasizing the grant recipient's responsibilities for site-specific environmental issues.

EDA's Seattle regional office routinely attaches specific assessments and additional documentation requirements of environmental hazards to Defense Adjustment Program project deeds. According to the Seattle office's regional counsel, while the environmental restrictions are often benign and unobtrusive, they promote efficiency by calling attention to the restrictions and placing the onus on the grantee to meet the additional requirements in the deed. The REO at EDA's Denver regional office also agreed that special conditions concerning the remediation of hazardous substances were more effective than EDA's standard terms and conditions, although we did not identify any grants to which the Denver REO attached such conditions. According to officials at EDA headquarters, as part of its due diligence under NEPA and depending upon the project facts and timing for remediation, the agency may make its financial assistance conditional on the grantee's providing evidence that a remediation plan has been approved at the state level or of actual compliance with a state process.

EDA Works with Federal, State, and Local Environmental Agencies to Ensure That Grant Recipients Comply with Applicable Environmental Laws

As we have seen, EDA requires grant recipients and their contractors and subcontractors to comply with all applicable federal, state, local, and territorial environmental laws as part of the standard terms and conditions of its grant awards. EDA works with environmental agencies at all levels of government to ensure that grant recipients comply with environmental requirements, but state environmental agencies (along with EPA) generally take the lead in ensuring such compliance. For example:

- In 2000, EDA funded a project in Kansas City, Missouri to demolish blighted structures, rehabilitate combined sewer lines, and replace catch basins at an existing industrial park site. This site also met the criteria of a brownfield under CERCLA. About 9 percent of the \$1 million awarded to the project was used for the removal of material containing asbestos found in the structures. The project file showed that the Missouri Department of Natural Resources issued a permit to the firm that completed the asbestos remediation in accordance with the state's asbestos regulations.
- EDA funded another project that met the criteria of a brownfield under CERCLA in Newport, Rhode Island in 2002, for infrastructure and site work on a former naval housing site that was being redeveloped as a community college, preschool program, and office complex. EDA

funded \$26,394 of the remediation costs for soil contaminated with arsenic (about 3 percent of the \$1 million awarded to the project). The project file showed that the Rhode Island Department of Environmental Management provided oversight of the cleanup of the contaminated soil to ensure compliance with the state policy for the remediation of arsenic contaminated soil.

EDA Grants Do Not Include A Specific Public Participation Requirement

We found that EDA required grantees to provide evidence of any efforts they had made to ensure that the public was aware of proposed projects, but it does not have a specific public participation requirement. Grantees could use newspaper articles, public meetings, or public notices as evidence of public awareness efforts. We found this type of evidence in the project files for an estimated 81 percent of the projects coded as brownfields. In some cases, the public might have been aware of projects, but we did not find evidence that grantees had tried to disseminate information in the project files; in some cases, EDA officials could not locate the evidence. EDA also requires grant applicants to fully describe any public controversy surrounding or objections to the proposed project, including the steps that were taken to resolve any issues, and submit a copy of the transcript if formal public hearings were held. Our analysis showed that most of the projects were not controversial and that public hearings were held for an estimated 27 percent of the projects with brownfield coding. For example:

- A project funded in 2002 in Trenton, New Jersey involved moving industrial park businesses from a flood prone industrial area to a flood protected area. The property contained asbestos, underground storage tanks, and contaminated soil, but much of the remediation had been done prior to this EDA grant.¹² The project met the criteria of a brownfield site in accordance with CERCLA. According to the environmental assessment, the project was discussed at open city council meetings, and EDA officials said that they were not aware of any objections to the project.
- Another project funded in 1998 in Los Angeles, California involved converting an abandoned four-story building into a business incubator. The project met the criteria of a brownfield site in accordance with

¹²A second grant for this project was made in 2003 to cover asbestos remediation costs of which EDA funded \$454,055 or 60 percent of the total estimated costs.

CERCLA. EDA spent less than \$100,000 of a \$1.8 million grant on remediation. The project details were posted in the California Areawide Clearinghouse, a biweekly public review and comment process, and sent to the Southern California Association of Governments. The project also received widespread newspaper coverage.

- A project funded in 2002 in Boston, Massachusetts involved renovating an industrial building in a shipyard and purchasing a boat lift to help attract new business. The project met the criteria of a brownfield site in accordance with CERCLA. At the time of our review, EDA had spent just over \$1,000 of a \$1 million grant on asbestos removal. According to the project file, public hearings were not held on this specific grant, but over 20 public meetings were held on planned renovations of the entire shipyard over a 3-year period. The file also documented that there was no controversy involving the project.

Grants Were Used for a Variety of Economic Development Purposes, but Data on the Projects' Impact Were Largely Unavailable

We found that EDA brownfield grants were used for various economic development purposes that resulted in the creation of industrial and business parks, business incubators, training facilities, and tourism and recreation facilities. The guidelines EDA uses to evaluate proposed projects emphasize a variety of factors, including the following:

- The number of relatively higher-skill, higher-wage jobs the project will generate;
- private sector investment in the project;
- strong leadership skills and project management experience; and
- the amount of matching funds that are available from local governments or nonprofits.

We found that data were not available on the reported economic development impact for most of the grants that we reviewed because the projects either were not complete or had not been completed long enough to establish results. However, we found during a review of project files that some estimates of the permanent jobs or private-sector investment a project would create did not appear to have been properly verified.

EDA Grants Supported a Variety of Economic Development Purposes

For our analysis, we reviewed EDA grants to sites coded as brownfields to determine the grants' purposes and project goals. We found that the most common purpose of EDA grants to brownfield sites was to make infrastructure-related improvements, such as upgrading water and sewer lines, constructing streets and curbs, and installing signage and lighting. EDA's development activities supported a variety of projects. Figure 4 shows the most common purposes of EDA grants, along with the goals or types of projects—most commonly industrial parks and other commercial developments—that were planned for former brownfield sites.

Figure 4: Purposes and Project Goals of EDA Grants with Brownfield Coding

Grant purpose	Estimated percentage ^a	Project goal	Estimated percentage ^a
Infrastructure improvements	56	Industrial park development	34
Renovation of existing building	33	Commercial development	33
Demolition of buildings and structures	16	Business incubators	14
Construction of new building	13	Educational or training development	11
Landscaping	10	Harbor development	5
Site preparation	8	Commercial airfield development	5
Other ^b	13	Tourism and recreational development	4
		Other ^c	2

Source: GAO analysis of EDA data.

^aPercents do not sum to 100 because some of the projects had more than one purpose, goal, or both.

^bOther purposes included transportation development, financial assistance, and waste water treatment upgrades.

^cOther project goals included providing low-income housing and upgrading transportation.

When eligible grant applicants submit preapplication proposals for construction projects, EDA must first determine whether the project area is eligible for assistance.¹³ Project areas eligible for EDA assistance generally include those that have one of the following:

- an unemployment rate at least 1 percentage point higher than the national average for the most recent 24-month period for which data are available;
- per capita income that is 80 percent or less of the national average for the most recent period for which data are available; or
- a special need, as determined by EDA, arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short-term or long-term changes in economic conditions.¹⁴

After determining that a project area is eligible for assistance, EDA evaluates project proposals competitively, based on five investment policy guidelines (See table 2). These guidelines are intended to focus on results rather than processes and encourage investment in U.S. communities based on risk and the expected return on the taxpayer's investment. EDA's investments through these guidelines also aim to attract private sector investment, have a higher probability of success, and ultimately result in an environment where relatively high-skill, high-wage jobs are created.

¹³Eligible applicants for, and eligible recipients of, EDA financial assistance include Economic Development Districts; Indian tribes or consortia of Indian tribes; states; cities or other political subdivisions; institutions of higher education or consortia of institutions of higher education; public or private nonprofit organizations or associations acting in cooperation with officials of a political subdivision of a state. EDA is not authorized to provide grants directly to individuals or to other for-profit entities seeking to start or expand a business.

¹⁴A special need can include substantial outmigration or population loss; underemployment (the employment of workers at less than full time or at less skilled tasks than their training and abilities permit); military base closures or realignments, defense contractor reductions-in-force, or DOE defense-related funding reductions; natural or other major disasters or emergencies; extraordinary depletion of natural resources; closure or restructuring of industrial firms that are essential to area economies; or destructive impacts of foreign trade.

Table 2: EDA's Investment Policy Guidelines

Investment policy guidelines	Description
Be market based and results driven	Investments should capitalize on a region's competitive strengths and positively move a regional economic indicator measured on EDA's Balanced Scorecard—for example, by increasing the number of relatively high-skill, high-wage jobs; increasing tax revenue; or increasing private-sector investment in the local community.
Have strong organizational leadership	Projects need to demonstrate strong leadership capabilities, relevant project management experience, and a significant commitment of human-resources talent to ensure their success.
Advance productivity, innovation, and entrepreneurship	Projects should embrace the principles of entrepreneurship, enhance regional clusters and leverage and link technology innovators and local universities to the private sector to create the conditions for greater productivity, innovation, and job creation.
Look beyond the immediate economic horizon, anticipate economic changes, and diversify the local and regional economy	Any investment must be part of an overarching, long-term comprehensive economic development strategy that enhances a region's success in achieving a rising standard of living by supporting existing industry clusters, developing emerging new clusters, or attracting new regional economic drivers.
Demonstrate a degree of commitment	Projects should exhibit (1) high levels of local-government or nonprofit matching funds and private sector leverage; (2) clear and unified leadership and support by local elected officials; and (3) strong cooperation among the business sector, relevant regional partners, and local, state, and federal governments.

Source: EDA.

EDA currently gives further priority to proposed projects that enhance regional competitiveness and support long-term development of the regional economy. EDA considers the following as strategic investments that enhance regional competitiveness and support long-term development of the regional economy, including projects that

- upgrade core business infrastructure, including transportation, communications, and specialized training programs;
- implement regional strategies that involve all stakeholders and support regional benchmarking initiatives;
- encourage institutional collaboration, reflect strong leadership commitment, and encourage a formalized structure to maintain consensus;
- cluster development establishing research and industrial parks that encourage innovation-based competition and recruitment efforts;

-
- help communities plan and implement economic adjustment strategies in response to sudden and severe economic dislocations;
 - support technology-led economic development, and reflect the important role of linking universities and industry and technology transfers; and
 - advance community and faith-based social entrepreneurship in redevelopment strategies for areas of chronic economic distress.

Given its funding resources, EDA invites successful project proposals to submit full applications.

Insufficient Time Has Elapsed to Assess the Economic Development Impact of Brownfield Projects

We found that insufficient time had elapsed to assess the economic development impact of most of the grants that we reviewed, either because the projects had not been completed or had not been completed long enough to establish results. EDA has two primary measures of the economic development impact of construction-related projects—(1) the number of permanent jobs a project creates or retains and (2) the amount of private-sector investment that a grant generates. Because the typical project is completed 3 years after the grant is awarded, EDA monitors performance results at 3, 6, and 9 years after the award. Data for jobs created after 3 years were available during our review for 32 percent of the 257 construction-related grants that EDA coded as brownfield sites, while data for jobs created after 6 years were available for 11 percent. Data on private-sector investment generated 3 years after grants were awarded were available for 25 percent and after 6 years for 9 percent of the grants. EDA officials stated that the most reliable data on economic development impact are those from 6- and 9-year evaluations.

EDA officials said that they relied to a certain extent on applicants' estimates of job creation and private investment in determining whether to fund a brownfield project. To evaluate the initial estimates, we compared 12 of the 140 grants that had both data on estimated job creation in the original application with data on job creation at the 6-year evaluation. Because of the limited data, we were not able to project our results to all construction-related projects coded as brownfields. For the 12 grants that had both types of information, we found that the reported jobs created or retained differed substantially from the initial project estimates for more than half of the grants (table 3).

Table 3: Initial Estimates and 6-Year Data on Jobs Created and Retained

Project	Initial project estimate	Reported jobs after 6 years
1	150	7
2	800	24
3	620	478
4	725	35
5	115	163
6	1,500	60
7	72	1,234
8	400	180
9	100	49
10	100	290
11	23	77
12	100	290

Source: GAO analysis of EDA data.

We also compared 6 of the 140 grants that had both estimates of private sector investment in the original applications with data on such investment at the 6-year evaluation. We found that the reported private sector investment 6 years after grant approval differed substantially from the initial investment estimates for most of the grants (table 4).

Table 4: Initial Project Estimates and 6-Year Data on Private Sector Investment

Project	Initial project estimate	Reported private sector investment after 6 years
1	\$30,000,000	\$30,000
2	230,000	750,000
3	1,526,439	932,685
4	2,000,000	1,794,000
5	1,600,000	5,577,264
6	15,000,000	10,000,000

Source: GAO analysis of EDA data.

We did not try to determine whether a direct causal relationship existed between the grants EDA made to brownfield sites and the reported economic development. However, as we have noted in prior reports, we

believe that attempting to quantify the gains from economic development programs is difficult. Determining that a causal relationship exists would require (1) documenting improvement in the targeted area, (2) linking specific elements in the program to the economic changes, and (3) measuring the growth stemming from other influences on the region's economy in order to isolate the impact that could be attributed to EDA's program.¹⁵

Economic Development Estimates Outlined in Project Proposals Were Not Always Appropriately Verified

We found that in some cases project proposals that provided estimates of the potential jobs or investment did not appear to have been verified. Grant applicants are required to estimate both the number of permanent jobs their project will create or retain and the amount of private sector investment the proposed projects will generate, including jobs directly related to the project. Regional office staff are required to verify the estimates before the projects begin, but we found instances in which verification appeared to have been insufficient. For example:

- In 1999, EDA awarded a \$1.39 million grant to the city of Laredo, Texas, for the construction of a bridge overpass and road to connect an existing industrial brownfield site to an interstate highway. The bridge overpass was designed to span existing railroad tracks in order to prevent collisions between trains and tractor-trailers traveling from the industrial site. EDA project summary documents indicated that the project would retain an estimated 1,500 jobs at the industrial site. However, the project file contained no documentation suggesting that the existing tenants would vacate the industrial site if the bridge overpass and road were not constructed.
- In 2002, EDA awarded a \$3 million grant to the Research Corporation of the University of Hawaii to help the School of Medicine construct a biotechnology center for technology transfer at a brownfield site and to acquire equipment for the center. EDA project summary documents indicated that the center would generate an estimated 400 permanent jobs. However, this estimate included 300 students who were expected

¹⁵GAO, *Economic Development: Limited Information Exists on the Impact of Assistance Provided by Three Agencies*, GAO/RCED 96-103, (Washington, D.C.: Apr. 3, 1996) and *Economic Development: Observations Regarding the Economic Development Administration's May 1998 Final Report on Its Public Works Program*, GAO/RCED 99-11R (Washington, D.C.: Mar. 23, 1999).

to graduate from the center within 5 years—indirect jobs that should not have been included in the permanent jobs estimate.

- In 1998, EDA awarded a \$2.25 million grant to the Fitzsimons Redevelopment Authority in Denver, Colorado for the construction of 50,000 square feet of interior space in a bioscience park center at a brownfield site—the second grant this project had received (the first was used to construct the building). EDA project summary documents indicated that an estimated 100 jobs would result from the project. However, the EDA project summary documents for the first grant also used the same permanent jobs estimate, so that the same jobs appear to have been counted twice.

Officials at some EDA regional offices said that they did not have the capacity or resources to verify the permanent jobs or private sector investment estimates submitted by grant applicants for proposed projects. Instead, they relied largely on their professional judgment and past knowledge and experience when reviewing permanent job and private-sector investment data for proposed projects. However, by not effectively substantiating the data applicants supply, EDA may not be funding those projects with the greatest potential economic development impact.

Conclusions

We found that, overall, EDA grants were being used for a variety of economic development activities that resulted in the reclaiming of former brownfield sites. Although we could not measure the precise economic impact of these projects, potentially, they serve a purpose that is difficult to quantify in reclaiming previously blighted land and structures and reducing the need to further develop rapidly disappearing “greenspace.” During our review, we found (1) best practices that could usefully be emulated and (2) a lack of appropriate verification procedures during the grant application process, as follows:

- Grant recipients and their contractors and subcontractors must comply with all applicable environmental laws as part of the standard conditions of EDA grant awards. We noted that REOs at three of EDA’s six regional offices routinely recommended adding special conditions to grants involving the remediation of hazardous substances that emphasized the need to comply with any environmental standards that the grant might not specifically identify in the standard terms and conditions of EDA grant awards. These special conditions help ensure

that projects comply with all environmental standards, promote efficiency, and help limit any potential liability to the government.

- Although EDA processing procedures require that regional office staff verify the estimated permanent jobs and private sector investment for proposed projects, we found instances in which these estimates appeared out of line but were not questioned by EDA staff. Substantiating these estimates would help EDA make more accurate funding decisions, based on more accurate job forecast and investment information, and would likely increase the chances of EDA funding projects with the greatest potential impact.

Recommendations

We recommend that the Secretary of Commerce direct EDA to take the following two actions:

- implement a standard procedure that would require regional offices to add a special condition to grants for brownfield sites where remediation of hazardous substances is required stipulating that the grant recipient provide evidence that remediation has been conducted in accordance with all applicable federal, state, and local regulations—including those not mentioned in the standard EDA grant forms—and
- ensure that regional staff verify estimated jobs and private-sector investment for proposed projects by following existing guidelines or creating new ones, as necessary.

Agency Comments and Our Evaluation

We provided the Department of Commerce with a draft of this report for review and comment. The Deputy Secretary provided written comments that are presented in appendix III. The letter stated that the report accurately reflects EDA's role in supporting brownfield revitalization projects and that remediation activities are a small part of EDA's activities. The letter also included technical comments, which have been incorporated in this report, where appropriate. Two of the technical comments dealt with our recommendations.

We recommended that EDA require regional offices to add a special condition to grants for brownfield sites that grantees provide evidence that remediation has been conducted in accordance with all applicable federal, state, and local regulations. The Deputy Secretary noted that adding a

special condition did not change a grantee's and EDA's overarching obligation to ensure that a project complies with all applicable laws and requirements. However, we found that three of EDA's six regional offices were routinely using such special conditions as a best practice. Officials in the regions implementing the practice told us that the special conditions (1) provided more specific assurances that projects were complying with environmental standards, (2) helped protect the government from liability if individuals were injured, and (3) promoted efficiency by placing the onus on the grantee to meet additional requirements. Given these benefits, we believe it would be beneficial if all six EDA regional offices adopted the practice.

The Deputy Secretary also questioned our recommendation that regional staff increase efforts to verify estimated jobs and private sector investment for proposed projects, because our sample size of projects with 6-year data was too small. We agree that the data do not allow for projections to all construction-related projects coded as brownfields. However, our recommendation was based on the fact that EDA's processing procedures required EDA regional staff to verify these estimates before construction began. We found examples of approved estimates that did not appear to be effectively substantiated by EDA staff. Verifying these estimates could help ensure that EDA funds those projects with the greatest potential impact.

We will send copies of this report to the Secretary of Commerce, relevant congressional committees, and other interested parties and will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-4325 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.



William B. Shear
Director, Financial Markets and
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Objectives, Scope, and Methodology

To evaluate the grants made by EDA for the economic development of brownfield sites, we (1) determined the extent to which brownfield projects funded by EDA grants included remediation activities, the types of remediation activities conducted, and the amount of EDA grant funds used for those activities; (2) identified the environmental standards that applied to EDA projects, examined the role of federal, state, and local environmental agencies, and the amount of public participation in the projects; and (3) identified the economic development standards that applied, the economic development activities conducted, and the reported economic development impact for the projects.

To meet our objectives, we obtained data from EDA on all grants awarded from fiscal years 1998 through 2004 that were coded as brownfield sites. For each grant, we obtained the following information from the database that EDA uses to track its grants:

- grant recipient's name,
- fiscal year the grant was awarded,
- project number,
- grant amount,
- funding source,
- investment type,
- general project description,
- state investment amount,
- jobs created or retained 3 years after approval,
- jobs created or retained 6 years after approval,
- private investment generated 3 years after approval, and
- private investment generated 6 years after approval.

We selected a sample of 140 (54 percent) of the 257 construction-related grants EDA awarded that were coded as brownfield sites. As table 5 shows,

our sample consisted of the 32 grants EDA awarded in fiscal year 2002 (regardless of grant amount), the 17 grants EDA awarded from fiscal years 1998 through 2004 for amounts greater than or equal to \$2.5 million (excluding 2002), and a random sample of 91 grants EDA awarded from fiscal years 1998 through 2004 for amounts less than \$2.5 million (excluding 2002).

Table 5: GAO Sample of EDA Grants to Brownfield Sites

	Public Works/other nondefense economic adjustment	Defense adjustment	Total	Sample
Grants awarded in 2002 (any amount)	32	0	32	32
Grants awarded from 1998 to 2004 (excluding 2002)				
Amount ≤\$2.5 million	6	11	17	17
Amount < \$2.5 million	146	62	208	91
Total	184	73	257	140

Source: GAO analysis of EDA data.

For each grant in our sample, we reviewed the project file maintained by EDA regional offices to determine (1) whether the project site was included under the CERCLA definition of a brownfield site at the time the grant was awarded,¹ (2) the specific remediation activities conducted at the project site and amount of EDA grant funds used for these activities,² (3)

¹CERCLA defines brownfield sites as areas where redevelopment or reuse may be complicated by real or perceived environmental contamination but generally excludes the following: (1) sites that are on EPA's National Priorities List or subject to environmental enforcement actions; (2) sites under the jurisdiction, custody, or control of the federal government; (3) sites contaminated with polychlorinated biphenyls that are subject to remediation under TSCA; and (4) sites that have had cleanup activity funded by the Leaking Underground Storage Tank Trust Fund.

²To determine the amount of EDA funding used for remediation activities for each grant, we multiplied the total cost of any remediation activities conducted by EDA's share of the total project costs. For a small number of grants in our sample, the project file did not contain documentation that enabled us to determine actual remediation costs. For example, these costs were included on invoices submitted by contractors as part of budget line items, such as demolition or construction. For grants for which actual remediation costs were not available, we used estimates provided by EDA regional office staff.

the economic development activities conducted and proposed economic development impact of the projects, and (4) the amount of public participation in the projects. We reviewed the individual project files because EDA does not maintain specific information on funding of remediation activities at brownfield sites in its automated database.

To ensure that the file reviews were performed uniformly, we used a Web-based, data-collection instrument to gather information about each project's brownfield classification, economic development activities, project costs, and remediation activities. To determine the purposes and project goals of the grants, two GAO analysts each performed an independent content analysis of information contained in project files. In cases where their results differed, the analysts obtained additional information from the project and redid the analysis until both analysts reached a consensus on each of the project's purposes and goals. Table 6 shows the number of grants in our sample at EDA's regional offices.

Table 6: Grants Reviewed at EDA Regional Offices

Regional office location	Number of grants in sample
Atlanta	26
Austin	9
Chicago	21
Denver	16
Philadelphia	55
Seattle	13
Total	140

Source: GAO analysis.

We used the 140 construction-related grants in our sample to generate separate estimates about the entire population of EDA grants coded as brownfield sites and the subpopulation of EDA grants included under the CERCLA brownfield definition. Our confidence in the precision of the results from this sample is expressed in 95-percent confidence intervals, which are expected to include the actual results in 95 percent of samples of this type. We calculated confidence intervals based on methods that are appropriate for our sample. All percentage estimates have 95-percent confidence intervals of within plus or minus 8 percentage points of the estimated percentage. All numerical estimates other than percentages, such as dollar estimates or totals, have 95-percent confidence intervals of

**Appendix I
Objectives, Scope, and Methodology**

within plus or minus 50 percent of the estimate itself. Table 7 summarizes the 95-percent confidence intervals for the numeric and percentage estimates presented in this report.

Table 7: 95-Percent Confidence Intervals for Numeric and Percentage Estimates

	Estimate	Lower bound	Upper bound
Estimates for all Brownfield sites			
Number of brownfield sites that included remediation activities	139	123	156
Percentage of brownfield sites that included remediation activities	54%	48%	61%
Number of brownfield sites where EDA contributed funding toward remediation activities	72	58	87
Percentage of brownfield sites where EDA contributed funding toward remediation activities	28%	22%	34%
Amount of EDA funds used for remediation activities	\$4,807,000	\$3,622,000	\$5,992,000
Defense Adjustment program funding	3,731,000	2,617,000	4,845,000
Public Works or nondefense related Economic Adjustment Programs	1,076,000	574,000	1,578,000
Percentage of EDA funds used for remediation activities	1.41%	1.06%	1.76%
Brownfield sites that met the Brownfield criteria defined in CERCLA			
Number of brownfield sites that met the brownfield criteria defined in CERCLA	191	177	205
Percentage of brownfield sites that met the brownfield criteria defined in CERCLA	74%	69%	80%
Number of Brownfield sites that included remediation activities	100	84	116
Percentage of brownfield sites that included remediation activities	52%	45%	60%
Percentage of brownfield sites where EDA contributed funding toward remediation activities	28%	21%	35%
Amount of EDA funds used for remediation activities	\$3,336,000	\$2,492,000	\$4,181,000
Defense Adjustment program funding	2,305,000	1,598,000	3,012,000
Public Works or nondefense related Economic Adjustment Programs	1,031,000	530,000	1,533,000
Percentage of EDA funds used for remediation activities	1.48%	1.11%	1.84%

Source: GAO analysis of EDA data.

Note: All dollar amounts are rounded to thousands.

To identify the environmental standards that applied to projects; the roles of federal, state, and local environmental agencies; and the amount of

public participation in the projects, we reviewed information on the environmental requirements for federal agencies, EDA policies and procedures for complying with these requirements, and the environmental requirements included in the standard terms and conditions of EDA grant awards. We also discussed the roles of federal, state, and local environmental agencies in projects with officials at EDA headquarters and regional offices. In addition, we reviewed EDA's grant requirements related to public participation for proposed projects.

To identify the economic development standards applied to projects, we reviewed information on the economic development standards that EDA used to evaluate proposed projects. We also discussed the application of these standards with officials at EDA headquarters and regional offices. In addition, we reviewed prior GAO reports about the impact of the economic development assistance provided by EDA.³

Our analysis of EDA grants was limited to a sample of grants provided to brownfield sites. EDA's grants to sites coded as brownfields represented only 13.6 percent of the total amount of funding that it awarded from fiscal years 1998 through 2004. Therefore, we could not evaluate the overall effectiveness of EDA's grant programs or determine how EDA applies its criteria to the broader universe of grant applications. In addition, we did not analyze the preapplication process, which, includes an evaluation and recommendations by EDA's regional investment review committees.

To report on the economic development impact related to EDA-funded brownfield projects, we relied on data contained in the project files for estimates of jobs created and private-sector investment. We also reviewed EDA's database of information on the actual numbers of jobs created at 3 and 6 years after the grants were funded and private-sector data. However, we did not verify the accuracy of the estimates or actual data reported.

In assessing the reliability of EDA's data, EDA officials, who were knowledgeable about the Operations Planning and Control System (OPCS) database used to track its grants, provided information to us; including the OPCS user manual. To increase our confidence in the reliability of EDA's grants data, we also compared the information that we obtained from EDA's database with source documents in the project file for each of the

³[GAO/RCED-96-103](#), [GAO/RCED-99-11R](#).

grants in our sample. We concluded that EDA's data were sufficiently reliable for the purposes of our report.

We also interviewed officials from the Department of Housing and Urban Development and EPA and reviewed documentation about each organization's brownfield program.

Our work was performed in Atlanta, Austin, Chicago, Denver, Philadelphia, San Antonio, Seattle, and Washington, D.C. We conducted our work between January 2005 and September 2005 in accordance with generally accepted government auditing standards.

Examples of EDA Grants to Brownfield Projects

Figure 5: EDA Grant to the City of Atlanta and Northyards Business Park, LLC

In 1999, EDA provided \$1.2 million to the city of Atlanta and the Northyards Business Park, LLC for infrastructure improvements to a business park that was redeveloped on the west side of Atlanta's downtown. These improvements included the construction of a roadway into the business park, demolition of structures located in the pathway of the roadway, landscaping improvements along the roadway and entrance to the business park, and business park signage. EDA's grant covered about 64 percent of the cost of the infrastructure improvements, which were completed in 2002.



The business park was one of the first heavy industrial sites in the city-used for steel manufacturing, railroad maintenance, and automotive repair; however, the general area had become blighted and contained a mixture of incompatible residential, commercial, and industrial uses. Because of the site's industrial nature, hazardous substances were found on some areas of the business park, including lead and petroleum soil contaminants, underground storage tanks, and asbestos containing materials. The city of Atlanta received \$1 million from the Department of Housing and Urban Development Brownfield Economic Development Initiative/Section 108 Program to remediate hazardous substances from the business park. However, asbestos containing materials also were suspected in the structures located in the path of the roadway to be constructed as part of the EDA grant. As a result, EDA added a special condition to the grant, which stipulated that the recipient shall furnish evidence satisfactory to the government that all remediation of hazardous materials within the rights-of-way of the EDA construction elements shall be conducted in accordance with federal and state regulations prior to the invitation for bids. An environmental remediation firm conducted the removal and disposal of these materials at a cost of \$127,609. EDA's share of the remediation costs totaled \$82,079 or about 7 percent of EDA's grant. The six structures within the redeveloped 260,000 square-foot business park are currently 71 percent leased. One of the largest tenants is a technical college that offers programs and career training for design, business, and information technology. According to EDA, \$11.5 million of private sector dollars has been invested in the business park as a result of this project.

Sources: GAO (analysis); EDA (photos).

Appendix II
Examples of EDA Grants to Brownfield
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Figure 6: EDA Grant to Philadelphia Authority for Industrial Development

In 1999, EDA provided \$5 million to the Philadelphia Authority for Industrial Development for infrastructure improvements for the former Philadelphia Naval Base, including the naval station and shipyard, into the Philadelphia Naval Business Center (PNBC). The infrastructure improvements included the demolition of existing structures, repair and improvements to the main gate, and landscaping and other aesthetic improvements within the business center. EDA's grant covered about 50 percent of the cost of the infrastructure improvements, which were completed in 2004. This grant was one of three construction grants that EDA made under its Economic Adjustment Defense Conversion Program for the development of the PNBC.



The naval station and shipyard closed in 1996, on the basis of a recommendation by the Base Closure and Realignment Commission (BRAC). As a result of the closure, the city of Philadelphia lost more than 6,000 civilian jobs. The total job loss was estimated at more than 18,000, including directly and indirectly associated activities, which translated into the annual loss of more than \$180 million in direct income and \$56 million in state and local government revenues. The city developed a comprehensive strategy to convert the former naval station and shipyard, which comprised more than 1,100 acres of land, to civilian use as part of a base reuse plan. The strategy called for the PNBC to be comprised of four sectors—the shipyard sector, targeted to ship building and repair businesses; the industrial park sector, targeted to medium- and small-sized manufacturers; the commerce center sector, targeted to research and development businesses, as well as light industrial and office businesses; and the distribution sector, targeted to inter-modal transfer terminal and warehousing facilities. The infrastructure improvements funded by this grant were located primarily in the commerce center sector of the PNBC.



The Department of the Navy performed extensive cleanup of hazardous contaminated areas at the project site. However, per DOD BRAC policy, buildings scheduled for demolition in the city's base reuse plan did not require mitigation by the Navy. Remediation activities conducted as part of the infrastructure improvements included the removal and disposal of asbestos containing materials, lead-based paint, and polychlorinated biphenyl (PCB) material at a cost of \$2.9 million. EDA's share of the remediation costs totaled about \$1.5 million or about 29 percent of EDA's grant. According to EDA, an estimated 800 permanent jobs and \$5 million of private sector investment are expected to be created at the PNBC as a result of this project.

Sources: GAO (analysis); EDA (photos).

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Examples of EDA Grants to Brownfield
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Figure 7: EDA Grant to City of Chester, Chester, Pennsylvania

During the early part of the 20th century, the city of Chester, PA, located 15 miles south of Philadelphia, was recognized as one of the nation's greatest shipbuilding areas. Chester's population peaked in the 1950's at 66,000, but it has since shrunk by over 44 percent, as closings in industries along the waterfront led to declines in other sectors of the local economy.



In 2003, EDA provided \$2.5 million to the city for infrastructure improvements for redevelopment of a 90 acre brownfield site along the Delaware River. Known as the "Wharf at Rivertown," the redevelopment project will convert the former Chester Power Station into 400,000 square feet of office space and develop the riverfront property, including a riverwalk, for recreational uses. Preferred Real Estate Investments (PREI), a private sector developer, committed over \$40 million to renovate the former power station under the condition that the surrounding public infrastructure be redeveloped. EDA's grant will cover about 80 percent of the cost of the infrastructure improvements, including site clearance and preparation for the construction of a parking lot and the riverwalk. The city anticipates that the riverwalk will be a focal point of its revitalization efforts. The city also received a \$200,000 grant from the Commonwealth of Pennsylvania, a \$1.4 million Brownfield Economic Development Initiative (BEDI) grant, and a \$3 million Section 108 loan guarantee through the Department of Housing and Urban Development (HUD) to help cover the cost of revitalizing the area.

PECO Energy Company stopped generating power at the Chester Station in 1982 and the riverfront site has been vacant ever since. In 1993, EPA required PECO, the former owner, to begin site remediation. Under agreements between the Exelon Corporation (formerly PECO Energy Company) and PREI, Exelon/PECO expended over \$5.75 million in environmental assessment, investigation and site remediation, and has budgeted another \$5 million to complete the environmental remediation and \$6.7 million for additional asbestos abatement, if needed. EDA has not contributed any funding for remediation at this brownfield site.

The applicant estimates that phase 1 of the "Wharf at Rivertown" will create 1,000 new jobs, and provide private-sector investments in the amount of \$40 million. However, the U.S. Department of Commerce projects that the site could create between 2,000 to 4,000 new jobs, producing \$95 million in wages. Three tenants have already signed leases to occupy over 210,000 square feet of space in the converted power station. Completion of the project is currently planned for March 2006.

Sources: GAO (analysis); EDA (photos).

Appendix II
Examples of EDA Grants to Brownfield
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Figure 8: EDA Grants to Greater Kelly Development Corporation, San Antonio, Texas



In 1998, EDA administered two Defense Economic Conversion Assistance grants that were awarded to the Greater Kelly Development Corporation, a local redevelopment authority that oversees the conversion of Kelly Air Force Base. The base was officially closed by the Air Force in July 2001, and the Greater Kelly Development Corporation has been transforming the base into KellyUSA, a multiuse airport and rail-serviced business park. In the first award EDA contributed \$1 million to a \$5.65 million dollar project to build a new administration building at the complex entrance equipped with telecommunications infrastructure to attract a major telecommunications company and other local companies to help replace jobs lost due to the base closing. The second award was a direct grant of \$2 million to help pay for concrete paving and replacement on the ramp (tarmac) where major aviation repair contractors, including Boeing and Lockheed, had leased space to perform aircraft maintenance. The Greater Kelly Development Corporation contributed an additional \$700,000 to the second grant.

KellyUSA is located approximately 5 miles southwest of downtown San Antonio, the eighth largest city in the country. When Kelly AFB was selected to close by the BRAC in 1995, 19,500 jobs were at risk. The application for the administration building grant stated that the project would replace 500 of the jobs that were lost due to the base closing, primarily made up of telecommunications jobs requiring bilingual employees earning an average salary of just under \$23,000. The application for the ramp repair contract stated that the grant would help retain the 850 employees of the major aviation repair contractors that were considering moving to Georgia if the repairs necessary for base reuse and development, including the ramp/tarmac repairs, were not made.

The major environmental concern on the former air force base is a contaminated groundwater plume, primarily made up of residues from the chemicals that were used to clean the engines parts over the prior decades at Kelly Air Force Base. However, the plume does not extend below either the area where the administration building was constructed or where the ramp repairs were made. Both projects had issues with contaminated soil, but the Air Force's environmental solution of natural attenuation, i.e., leaving it in place, was accepted by the state environmental agency for both projects. The project files showed that in the event contractors found environmentally suspect soil not previously sampled that required remediation, the soil would be moved off-site by the Air Force and replaced with clean fill. Neither EDA grant paid for any remediation expenses.

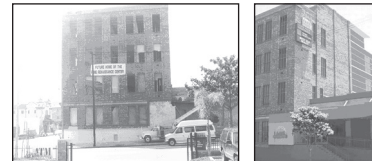
Since the EDA grants were made, most of the land not affected by the groundwater plume, including the Administration Building property and the airstrip ramp, have been turned over to the Greater Kelly Development Corporation. KellyUSA reports that as of September 2004, 63 tenants had leased 8.2 million square feet of space, 5,140 jobs with salaries averaging over \$38,000 per year had been created, and 7,221 Air Force jobs were retained.

Source: GAO.

Appendix II
Examples of EDA Grants to Brownfield
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Figure 9: EDA Grant to FAME Assistance Corporation, Los Angeles, California

In 1998, EDA provided a \$1.8 million grant to the FAME Assistance Corporation (FAC), a nonprofit corporation affiliated with the Los Angeles's oldest Black church, to renovate a four-story building as a business incubator. The building, an 80-year old brick structure once owned by Pacific Bell, contained asbestos, lead-based paint, and underground fuel storage tanks that needed to be remediated. EDA's grant covered \$120,000 of the asbestos and lead paint remediation. Remediation of the underground storage tanks was done prior to EDA's grant, according to a plan approved by the Los Angeles Fire Department. State and local statutes comparable to federal regulations governed the remediation processes for the asbestos and lead-based paint.



The completed incubator, which is based on a business model developed by the Enterprise Center in Philadelphia, is intended to serve inner-city minority entrepreneurs who lack access to capital and have a demonstrated pattern of unmet need for loans and equity investments. FAC launched the incubator along with business training and technical assistance programs in the spring of 2002. Since then, the completed incubator has been supporting start-up businesses in the entertainment industry, including film, video, and animation production companies. The start-ups are expected to create an estimated 220 jobs that will give the unemployed and underemployed opportunities in an area that had lost many defense jobs. FAC has received funds and technical expertise from the Walt Disney Company and the ARCO Foundation and has started a venture capital fund that will invest up to \$1 million in the incubator's start-ups.

Sources: GAO (analysis); FAME Assistance Corporation (photos).

Comments from Department of Commerce



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

October 17, 2005

Mr. William B. Shear
Director, Financial Markets
and Community Investment
U.S. Government Accountability Office
441 G Street, NW, Room 2A10
Washington, D.C. 20548

Dear Mr. Shear:

Thank you for the opportunity to comment on the draft report entitled *Economic Development Administration: Remediation Activities Account for a Small Percentage of Total Brownfield Grant Funding* (GAO-06-7).

We have reviewed the draft report and found that it accurately reflects the Economic Development Administration's important role supporting national brownfields revitalization projects and its finding of incidental remediation activities as a small percentage thereof. We have appended minor technical comments and clarifications for your consideration.

Again, thank you for the opportunity to review the draft report and for your interest in the programs of the Department of Commerce. If you have any questions, please contact me or Sandy K. Baruah, Acting Assistant Secretary for Economic Development, at (202) 482-5081.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Sampson".

David A. Sampson

Enclosure

Technical Comments/Clarifications

1. GAO Recommendation #1 – Require all EDA regional offices to use special conditions concerning the remediation of hazardous substances: Environmental special conditions (i) are not required by law or regulations, (ii) may not be appropriate in all circumstances, and (iii) are not outcome determinative where compliance with federal, state and local environmental laws is concerned. Thus, while EDA believes that the use of special conditions generally promotes efficiency by drawing attention to environmental restrictions/requirements concerning remediation of hazardous substances, EDA disagrees with GAO's "blanket" recommendation that all EDA regional offices use special conditions where a project calls for the remediation of hazardous substances.

Section 612 of PWEDA and the regulations promulgated thereunder require all EDA projects (including those that involve remediation) to be conducted in compliance with all applicable federal, state and local laws and standards. EDA does not need a special condition to enforce compliance with its statute and regulations and adding a special condition does not change a grantee's (and EDA's) overarching obligation to ensure that a project complies with all applicable environmental laws and requirements. Accordingly, while useful in certain situations, the use of special conditions is not outcome determinative where compliance with environmental requirements is concerned.

2. GAO Recommendation #2 – Ensure that EDA staff verify the estimated jobs and private sector investment for proposed projects: This recommendation stems from the finding that "the [GPRA] reported jobs created or retained differed substantially from the initial project estimates for more than half of the grants" and a similar finding with respect to private investment values. Specifically, GAO finds low correlation between the initial estimates and the 3- and 6-year GPRA reports. The errors are both high and low. Either can produce poor correlation.

As GAO acknowledges, the comparison is not exact because the initial estimates refer to project maturity values (i.e., 9-year values), not the interim values (i.e., 3- and 6- year values) available at this time. Therefore, one would expect the correlations to be poor. Given these facts, conclusions concerning correlations between final (9-year) values and initial estimates, as implied by the GAO language, are not warranted.

GAO presents tables comparing 3- and 6-year values with initial estimates. Some reported values are substantially higher than the initial forecasts, others considerably lower. Even if these were final values, variation is to be expected. Any forecast is subject to error. Ford Motor Company's original sales estimates for the Mustang and Edsel varied considerably from the actual outcomes, and in opposite directions.

Finally, as GAO concedes, the findings are based on a very small sub-sample of grants. In the case of the 6-year private investment values only 6 projects are considered, for jobs only 12. Given such a small sample, no conclusions can be reached regarding EDA brownfield projects or EDA investments more generally, as the recommendation appears to imply.

3. Draft GAO Report, Page 3, Second Bullet Point (Economic Adjustment Program):

A. Remove "foreign trade competition that causes" from the third sentence. The sentence should read: "Adverse economic impacts may result from the actual or threatened closure of a principal industry or company, a catastrophic natural or terrorist disaster, or a military base closure." This change is necessary as adverse economic impacts result from a myriad of circumstances, including but not limited to an increase in foreign trade competition. As currently drafted, the report indicates that foreign trade competition is the cause of the actual or threatened closure of a principal industry or company....; OR

B. Remove "that causes" from the third sentence so that the sentence reads: "Adverse economic impacts may result from foreign trade competition, the actual or threatened closure of a principal industry or company, a catastrophic natural or terrorist disaster, or a military base closure." This alternative makes clear that foreign trade competition is one of many events that cause adverse economic conditions. See Section 209(c) of PWEDA.

4. Draft GAO Report, Page 6, Second Sentence in the First Paragraph: Use of the phrase "high-skill, high-wage" jobs should be modified throughout the entire report to read "higher-skill, higher-wage" jobs.

5. Draft GAO Report, Page 9, Last Full Sentence in the Last Paragraph: "Before receiving a grant, an entity must submit a preapplication proposal to an EDA Economic Development Representative responsible for that area." This is not correct. Strike "Economic Development Representative" after "EDA," and replace with "regional office."

6. Draft GAO Report, Page 9, Last Sentence in the Last Paragraph: Rewrite this sentence to read, "After preliminary reviews, each preapplication proposal is considered by the regional Investment Review Committee, which consists of the Division Chiefs and other regional office staff." The Regional Director is not on the IRC, and in some regional offices the Regional Counsel serves an advisory rather than a full voting role on the IRC.

7. Draft GAO Report, Page 16, Last Sentence in the First Paragraph: (i) add "with transferred funding" after "funded," (ii) add "and pursuant to EDA's MOU with the Department of Defense Office of Economic Adjustment," after "program," and (iii) replace "less control with how grant funds are spent" with "little or no upfront decisional authority over those projects selected for funding." The sentence should read: "For projects funded with transferred funding under this program, and pursuant to EDA's MOU with the Department of Defense Office of Economic Adjustment, EDA does not play a major role in determining the developmental activities to be performed and has little or no decisional authority over those projects selected for funding."

Appendix III
Comments from Department of Commerce

The majority of EDA projects under the Defense Adjustment Program are undertaken with transferred funding pursuant to EDA's MOU with the Department of Defense Office of Economic Adjustment. Often these projects are funded pursuant to a targeted DOD appropriation; DOD/OEA transfers funds to EDA, which is responsible for grant and project administration. Accordingly, EDA is generally left with little or no decisional discretion as to which projects receive funding, although as the project administrator EDA does control the disbursement of funds for eligible expenses. The recommended change makes clear to the reader this very important distinction. Without the change, the reader may incorrectly understand that EDA (as the project administrator) does not exercise adequate fiscal and administrative controls over project disbursements.

8. Draft GAO Report, Page 22, First Bullet: Another occurrence of the phrase "high-skill, high-wage" jobs that should be modified throughout the entire report to read "higher-skill, higher-wage" jobs.

GAO Contacts and Staff Acknowledgments

GAO Contacts

William B. Shear, (202) 512-4325, shearw@gao.gov

Staff Acknowledgments

In addition to those named above, Andy Finkel, Assistant Director; Marshall Hamlett, Analyst in Charge; Carolyn Boyce; Mark Braza; Tania Calhoun; Emily Chalmers; Marc Molino; Roberto Piñero; George Quinn; Mark Ramage; and Rhonda Rose made key contributions to this report.

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