

December 1995

ENERGY DOWNSIZING

Criteria for Community Assistance Needed





United States
General Accounting Office
Washington, D.C. 20548

**Resources, Community, and
Economic Development Division**

B-270358

December 27, 1995

The Honorable Hazel R. O'Leary
The Secretary of Energy

Dear Madam Secretary:

Since the end of the Cold War, the Department of Energy has been downsizing and realigning its facilities. As part of this effort, Energy closed the Pinellas plant, located on a 96-acre site in Largo, Florida. This facility had been used to manufacture components for the nation's nuclear weapons program. In 1995, Energy transferred the facility to the Pinellas County Industry Council¹ to help minimize the adverse economic effects of the closing on the surrounding communities. Energy has also provided funding to mitigate the effects of the closing.

Because Energy will likely dispose of additional facilities as it continues to downsize and realign its facilities, this report examines the criteria Energy used to (1) identify and evaluate the economic effects of closing the Pinellas plant and (2) decide what types and amounts of assistance were appropriate to help offset these effects.

Results in Brief

Energy's policy guidance supports economic development to minimize the impact on displaced workers and affected communities of closing the Department's former defense nuclear weapons facilities. However, Energy has not established specific criteria for identifying and evaluating the impact of the closings; nor has it established specific criteria for deciding what types and amounts of assistance are appropriate to help offset that impact. Such criteria are important because Energy's downsizing will likely continue for years and will cost millions of dollars.

Background

As part of the nationwide effort to downsize, realign, or close defense nuclear weapons facilities, on September 8, 1993, the Secretary of Energy authorized the termination of defense production activities at the Pinellas plant in Largo, Florida. This decision was designed to reduce the cost of operating facilities that make components for the nation's nuclear weapons complex. On December 14, 1993, Energy notified the Pinellas plant's employees and the affected communities that the plant would be closed over the next several years as activities were consolidated at other

¹The Council is chartered by the state to, among other things, develop the county's industrial base.

Energy locations. On May 27, 1994, Energy issued a Workforce Restructuring Plan identifying the actions it would take to minimize the impact of the closing on the displaced workers. Energy also developed an Economic Development Plan in conjunction with representatives of the affected communities to identify the actions it would fund to minimize the impact of the plant's closing on the surrounding communities.

Section 3161 of the National Defense Authorization Act for Fiscal Year 1993 (P.L. 102-484) requires Energy to develop a plan for restructuring the workforce at defense nuclear weapons facilities affected by a change in nuclear weapons production. The objectives of the plan should include identifying the types of assistance to displaced workers and affected local communities that Energy will provide to minimize the social and economic effects of its decisions to terminate nuclear weapons production operations.

The Pinellas plant is operated under contract by Lockheed Martin Specialty Components, Inc. The plant employed 1,132 personnel on March 25, 1994. On March 7, 1995, Energy transferred the Pinellas plant to the Pinellas County Industry Council to help mitigate the economic impact of the plant's closing on the surrounding communities. The plant consists of about 96 acres of land and over 750,000 square feet of office and plant space. Two appraisals were performed to determine the value of the property, land, and facilities. The appraised values were \$2.6 million and \$5.1 million. The site was sold to the Council for the lower appraised value of \$2.6 million. As part of the sale, Energy agreed to finish cleaning up environmental pollution at the site. To accomplish this task, Energy is leasing the site back from the Council for up to 31 months at a rate of \$120,331 a month. The monthly lease payments are being credited against the sale price. After 22 months, the lease payments will have offset the sale price, and Energy will begin paying rent to the Council.

Pinellas County, the most densely populated county in Florida, is located in the Tampa Bay metropolitan statistical area, which is Florida's largest metropolitan market. Pinellas County has a high percentage of high-technology and manufacturing jobs. However, tourism, real estate, and retail sales are the staple industries of the county's economy, and growth is occurring in manufacturing, international trade, health care, and biotechnology. When the workforce's restructuring began in 1994, the Pinellas plant was the 21st largest employer in Pinellas County.

Energy Lacks Criteria for Identifying and Mitigating the Impact of Downsizing

Energy has issued policy guidance on the responsibilities of Energy and contractor officials for (1) mitigating the impact on communities of reductions in contractors' employment at Energy's facilities and (2) supporting communities' transition and economic development activities. However, this guidance does not establish specific criteria either for determining the economic effects of Energy's downsizing or for funding communities' economic development activities.

Energy Is Providing Assistance to Mitigate the Effects of Closing the Pinellas Plant

Energy has relied on the local communities to help determine the types and amounts of assistance needed to mitigate the economic impact of closing the Pinellas plant and has not performed analyses to determine the extent of the impact and the amounts of assistance needed. However, Energy is providing over \$20.5 million in financial assistance. The Director of Energy's Office of Worker and Community Transition told us that Energy is further trying to mitigate the economic effects of the closing on the communities by seeking to convert defense technology to produce commercial goods and services. Energy's guidance indicates that such commercialization will create jobs for former employees and enhance economic development. According to a Transition program official at Energy's Pinellas Area Office, Energy is providing \$10.75 million for economic development activities to facilitate workers' and the communities' transition. In addition, Energy provided \$9.75 million for alternative-use activities at the facility and technology transfer initiatives with Lockheed Martin Specialty Components, Inc. Finally, the Department of Defense is providing \$6 million for technology development. The financial assistance has been provided to

- plan and organize the local community organization;
- identify replacement job opportunities for the Pinellas plant's employees by creating new businesses, attracting businesses to the area, and expanding existing businesses;
- identify potential replacement occupants for the Pinellas plant;
- develop criteria for evaluating, ranking, and commercializing technologies; and
- establish a technology deployment center to make the Pinellas plant's equipment, technical expertise, production capability, and service functions available for new economic and business development.

Energy's Guidance Establishes Goals for Assisting Workers and Communities

In November 1992, Energy issued policy guidance stating that reductions in contractors' employment should be managed to, among other things, help alleviate the impact of the reductions on affected communities. The guidance requires cognizant program secretarial officers, heads of field organizations, and contractors to develop programs to mitigate the impact of the reductions on the displaced employees and the communities.

In April 1993, Energy's Office of Worker and Community Transition issued interim guidance on restructuring the Department's contractor workforce to implement section 3161 of the National Defense Authorization Act for Fiscal Year 1993. This guidance, which was revised in April 1995, addresses three interdependent processes that Energy considers integral to support economic development activities: involving local communities, allocating funding and resources, and identifying uses for Energy's surplus real and related personal property. The guidance does not define what conditions create the adverse economic effects that require the transfer of Energy's land and facilities. Although the guidance states that Energy will prioritize funding for projects, it does not discuss the specific types and amounts of assistance that should be provided to offset the economic effects. Because Energy will likely continue downsizing its facilities at other locations, such criteria are needed to provide for the fair and appropriate allocation of its resources.

The Director of Energy's Office of Worker and Community Transition agreed that the Department does not have specific criteria for identifying and evaluating the economic effects of closing its facilities and downsizing or for determining the appropriate types and amounts of assistance to help offset these effects. However, he told us that determining the reasonableness of such activities and assistance has involved negotiation between Energy and community stakeholders.

At the conclusion of our audit work, the Director told us that his office needs to develop specific guidance on how much Energy should spend to mitigate the economic effects of downsizing and to develop replacement technologies.

Conclusions

Because the actions at the Pinellas plant are only part of a longer-term restructuring process at Energy's facilities, Energy will continue to spend millions of dollars to mitigate the adverse economic effects of downsizing on communities. However, without specific criteria for identifying and analyzing these effects in communities and for making decisions on

providing financial and other assistance for economic development, Energy cannot ensure that it is fairly and appropriately allocating its resources.

Recommendation

We recommend that you direct the Director, Office of Worker and Community Transition, and other cognizant secretarial officers to develop criteria for Energy to

- identify the adverse economic effects of downsizing or closing its facilities and
- define the types and amounts of assistance that it will provide for economic development.

Agency Comments and Our Evaluation

We transmitted a draft of this report to the Secretary of Energy for review and comment. Energy's comments appear in appendix I. Energy generally agreed with the report's findings and recommendation. In addition, Energy outlined its plans for implementing our recommendation and provided some technical corrections. The conceptual framework outlined by Energy to implement our recommendation appears reasonable; however, Energy did not provide time frames for implementation. We believe that establishing time frames is important because, as Energy noted in its comments, the impact of future closings may be more severe and a well-defined program would be the most effective way to minimize that impact. Energy also explained why it had initiated the program without specific criteria to identify the adverse economic effects of downsizing or to define the types and amounts of economic development assistance that it would fund. We believe that specific criteria are important because they would help Energy allocate its resources fairly.

Scope and Methodology

We reviewed Energy's policies and procedures governing the sale of the Pinellas plant to the Pinellas County Industry Council. We reviewed relevant federal regulations, prior GAO reports on sales of property, and a related audit report by Energy's Inspector General. We reviewed cost analyses, property appraisals, financial documents, relevant departmental policies and procedures, and data on Energy's transfers of properties through sales and leases to communities and businesses, as well as on the recipients' uses of the properties. We interviewed Energy officials in the Offices of Worker and Community Transition, Environmental Management, Field Management, and the Pinellas Area Office. We

conducted our review from June 1995 through November 1995 in accordance with generally accepted government auditing standards.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement of the actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight not later than 60 days after the date of this letter. A written statement must also be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

We are sending copies of this report to your Audit Liaison Division for distribution within your agency. Copies will also be sent to congressional committees; the Director, Office of Management and Budget; and other interested parties. We will make copies available to others upon request.

Please call me at (202) 512-3841 if you or your staff have any questions. Major contributors to this report were Jeffrey E. Heil and Carrie M. Stevens.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Victor S. Rezendes". The signature is fluid and cursive, with the first name being the most prominent.

Victor S. Rezendes
Director, Energy and
Science Issues

Comments From the Department of Energy



Department of Energy

Washington, DC 20585

November 22, 1995

Mr. Victor S. Rezendes
Director, Energy and Science Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Rezendes:

This is in response to your letter of November 9, 1995, to Secretary O'Leary requesting comments on the draft report, "Energy Downsizing: Community Assistance Criteria Needed," RCED-96-36. The Secretary has forwarded your letter to me for response because of my responsibilities as Director of the Office of Worker and Community Transition. This Office has reviewed the draft report and is in general agreement with its findings and the recommendations made by the General Accounting Office (GAO) review team.

Initially, the Department of Energy (DOE) reviewed similar programs at the Departments of Commerce, Labor, and Defense for guidelines in developing its own program. The DOE concluded that since assistance needed to be provided immediately, a formula-driven program was not prudent and that even minimum requirements would take time to develop and approve. Congress did not include any economic threshold requirement in 3161 other than the requirement that the policy apply to sites undergoing a change in the work force. Given the urgency of immediate restructuring, the DOE elected to proceed with no threshold impact requirement.

The DOE realized that the impact of its downsizing would be felt over time and tried to initiate programs wherever there was an expected change in the work force. It also recognized that the impacts would probably be more severe, not less severe, in the future and that a well defined program would be the most effective way to minimize impacts. Guidelines for funding were developed when the DOE had limited experience and understanding of how the program might develop. Gradually, attention and funding focused on three sites identified for transition in the non-nuclear reconfiguration decision (Pinellas, Mound and Rocky Flats). Other sites were considered for funding based on need and the maturity of their proposals.

While there is general agreement with the findings in the GAO review of the Pinellas transition program, there are some technical inaccuracies that, as currently worded, could be misinterpreted to include work force restructuring funds. The end of the last paragraph on page 4 should be rewritten as follows:

"According to a Transition program official at Energy's Pinellas Area Office, Energy is providing \$10.75 million for *economic development activities* to facilitate workers' and the community's

transition, and \$9.75 million for *Alternate Use activities and technology transfer initiatives under the prime contract.*”

In addition, the second bullet at the bottom of the page, “develop skills data base for the work force.” should be stricken. The Community Reuse Organization (CRO) decided not to proceed with that activity.

Several months prior to GAO’s request for information from the Office of Worker and Community Transition, the Office recognized the urgency to establish guidance that made DOE and stakeholders accountable for dollars spent on community transition activities, to view projects in terms of return on investment and to evaluate program effectiveness using quantifiable measures of success.

The Office is taking steps to increase accountability and to formalize the project selection process working interactively with the CROs to revise the community transition guidelines. The revised guidance will support the recommendations made by GAO through its focus on cost/benefit analysis, the requirement of project justification and the development of performance measures criteria. The revised guidance will also address accountability and traceability issues post award.

A concept under development is the requirement for strategic plans from communities designed to better define those activities and target areas that have the best potential to assist that community. This plan will provide the framework within which individual projects would be evaluated. It will also address self-sufficiency issues, making it clear that the program is intended to have limited DOE funding and that the future of the CROs lies with non-DOE funding sources.

If you have any further questions regarding this issue, please contact me directly at (202) 586-7550, or Debby Swichkow of my staff, at (202) 586-0876.

Sincerely,



Robert W. DeGrasse, Jr.
Director, Office of Worker
and Community Transition

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