

GAO

Report to the Chairman and Ranking
Minority Member, Committee on
Finance, U.S. Senate

September 2000

TRADE ADJUSTMENT ASSISTANCE

Opportunities to Improve the Community Adjustment and Investment Program



G A O

Accountability * Integrity * Reliability

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Abbreviations

CAIP	Community Adjustment and Investment Program
NAFTA	North American Free Trade Agreement
SBA	Small Business Administration
USDA	U.S. Department of Agriculture



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

**National Security and
International Affairs Division**

B-286103

September 29, 2000

The Honorable William V. Roth, Jr.
Chairman
The Honorable Daniel Patrick Moynihan
Ranking Minority Member
Committee on Finance
United States Senate

Recognizing that the benefits of the North American Free Trade Agreement between the United States, Mexico, and Canada would be widely dispersed across the economy but that the costs or worker dislocation effects could be more concentrated, Congress created the Community Adjustment and Investment Program in December 1993¹ to assist communities suffering job losses due to changing trade patterns with Mexico and Canada. Under this program, loan guarantees, loans, and grants are provided to eligible counties to help stimulate private sector employment and growth. Loan guarantees to local businesses have accounted for the preponderance of financing commitments to date. The program was established with an initial capitalization of \$22.5 million and has received \$20 million in additional appropriations to support and expand program activities.

You expressed concern about whether the Community Adjustment and Investment Program is providing timely and useful assistance to eligible counties. At your request, we assessed (1) how the program has been structured, (2) how program eligibility criteria and outreach efforts have been implemented, and (3) what the results of efforts to provide assistance to eligible counties were.

¹Public Law 103-182, Sec. 543, Dec. 8, 1993.

Background

The Community Adjustment and Investment Program was established as a result of the North American Free Trade Agreement Implementation Act, passed in December 1993. The act provided that 10 percent of the paid-in capital (\$22.5 million) to the North American Development Bank would be set aside for community adjustment and investment purposes.² The North American Development Bank, while it is the repository for program funds and provides funds management services for the program, does not exercise financial or programmatic control over the Community Adjustment and Investment Program. This authority rests with an interagency committee chaired by the Treasury Department.

The Community Adjustment and Investment Program uses a lending partnership with the Department of Agriculture and the Small Business Administration to jointly provide federal loan guarantees to eligible communities. The program uses the extensive field office infrastructure these agencies already have in place across the country. Although the Agriculture Department and Small Business Administration loan guarantee programs' eligibility and creditworthiness standards remained unchanged, additional eligibility standards were instituted for Community Adjustment and Investment Program loan guarantees. These loan guarantee eligibility standards mainly focus on the creation or retention of jobs.

Results in Brief

The Community Adjustment and Investment Program's management structure hinders efficient program management. The program is managed in Washington, D.C., by a high-level interagency group chaired by the Treasury Department, called the Finance Committee. Committee membership includes the Departments of Agriculture; Commerce; Housing and Urban Development; and Labor; and the Small Business Administration. It took the Finance Committee over 3 years to set up program guidelines and to start disbursing program financing to distressed counties. The Finance Committee's retention of certain day-to-day managerial functions is inefficient and has added more time to the decision-making process, particularly for direct loans and grants. Treasury

²The North American Development Bank is an international financial institution established and capitalized in equal parts by the United States and Mexico for the purpose of financing environmental infrastructure projects in the U.S.-Mexico border region, as well as for community adjustment and investment in support of the purposes of the North American Free Trade Agreement.

officials recognize that some delays have resulted from the program's centralized management structure and told us that they plan to hire additional full-time staff to expedite future decision-making. However, it is not clear that new staff will improve program management unless the Finance Committee is prepared to delegate decision-making authority.

Program eligibility procedures are complex and rely on a database that is not designed to be used as a measure of the impact of the North American Free Trade Agreement on communities. We found that the Treasury's current procedures result in the underestimation of dislocated workers, including approximately 3,700 secondary workers in firms that are suppliers to or assemblers for manufacturing firms adversely impacted by trade with Mexico and Canada. Although this undercounting has not had an impact on counties' eligibility to date, it could potentially prevent some counties from qualifying for the program. For the 228 counties in 30 states and Puerto Rico designated eligible for the program, notification and outreach have been limited, as the Treasury does not directly notify eligible counties about the program, according to program officials.

Since 1997, about \$257 million in loan guarantees, loans, and grants have been provided to 83 eligible counties. Loan guarantees made through the program's partnership with the Small Business Administration and the Department of Agriculture represent 99 percent of the total financing provided. The community that received the largest portion (11 percent) of this financing is El Paso, Texas. It is not clear to what extent the financing assistance has resulted in private sector employment and growth, because the program does not have a monitoring system in place to measure program outcomes. Although program records indicate that participating businesses created or retained 9,208 jobs, these data are based on projections made by businesses when first applying for program financing and are not verified. Moreover, most of the bankers and business owners we interviewed said that the loan guarantees provided under the program in partnership with the Small Business Administration would still have been made without the program, although the lack of the benefit would have increased the risk to the borrowers' small business expansion projects. In addition, as we have stated in our previous work,³ federal financing programs that assist specific sectors or firms largely shift employment among sectors in the economy rather than raise the overall

³See *Export-Import Bank: Key Factors in Considering Eximbank Reauthorization* (GAO/T-NSIAD-97-215, July 17, 1997).

level of employment, so that the program's jobs figure may not represent net job gains in a period of full employment.

This report makes several recommendations to the Secretary of the Treasury to improve program management by delegating authority from the Finance Committee, amending eligibility data procedures, improving notification to eligible counties, and establishing a monitoring system to measure program outcomes. In written comments on a draft of this report, the Treasury agreed with our recommendations to amend the eligibility data procedures and improve notification to eligible counties. However, it did not agree that delegating additional authority from the Finance Committee would improve program management. Based on clarifications provided by the agencies on the role of the Finance Committee in the loan guarantee approval process, we modified the report and our recommendation to focus on delegating additional decision-making authority to program staff for loans and grants in order to promote a more efficient and timely decision-making process. Finally, while Treasury agreed in principle with our recommendation to establish a monitoring system to measure program outcomes, it expressed concern about the nature of the monitoring to be established. We disagree that follow-up reporting will make the program less competitive or desirable to loan guarantee recipients, especially since the program's lending partners (the Small Business Administration and the Department of Agriculture) already conduct such follow-up reporting for their other loan guarantees.

Management Structure Hinders Efficient Program Delivery

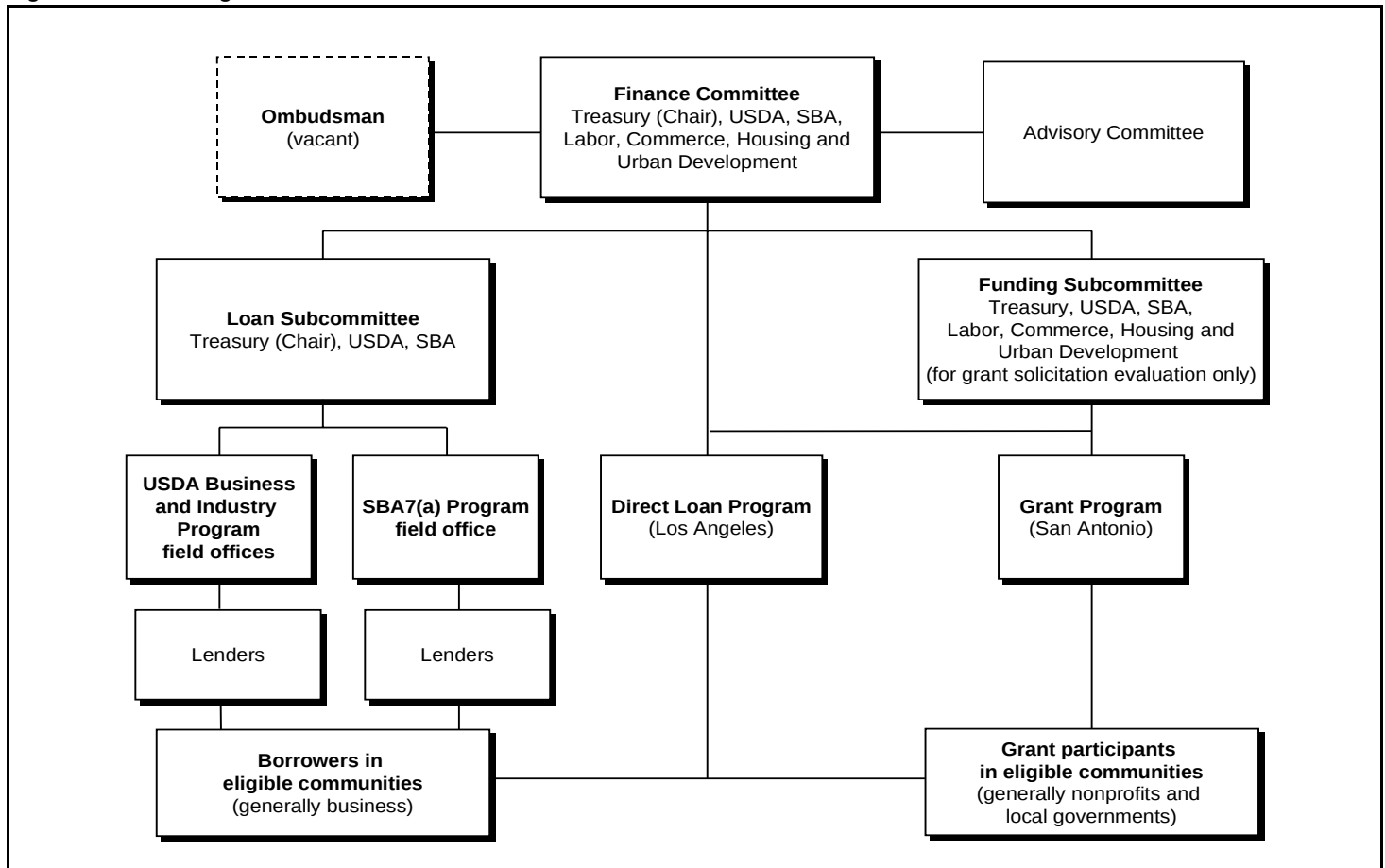
The Community Adjustment and Investment Program (CAIP) is managed under a high-level interagency committee structure that seeks to leverage available program funds by focusing on partnerships with existing federal loan guarantee programs. However, the Finance Committee's retention of certain day-to-day managerial functions is inefficient and adds time to the decision-making process.

How CAIP Is Structured

The Finance Committee, chaired by the Department of the Treasury, is comprised of members from participating federal agencies, including the Departments of Agriculture (USDA); Commerce; Housing and Urban Development; and Labor; and the Small Business Administration (SBA). Committee members are often at the deputy assistant secretary or deputy

assistant administrator level.⁴ Figure 1 shows the organizational structure of CAIP.

Figure 1: CAIP's Organizational Structure



Source: Treasury Department.

⁴Current Finance Committee members include the Treasury's Deputy Assistant Secretary, Office of Government Financial Policy (chair); Agriculture's Deputy Under Secretary for Policy & Planning, Office of Rural Development; SBA's Deputy Associate Deputy Administrator, Office of Capital Access; Housing and Urban Development's Director, Office of Economic Development and Empowerment Zones; Labor's Director, Women's Bureau; and Commerce's Special Assistant to the Deputy Assistant Secretary, Economic Development Administration.

The Finance Committee's course of action in structuring CAIP was predicated on its desire to maximize the potential impact of a relatively small level of funding, its onetime capitalization of \$22.5 million. At a time of extensive federal government budget cutbacks in the mid-1990s, the committee wanted to minimize the funding that would be needed for administrative overhead and decided to partner with existing federal loan guarantee programs at USDA and SBA, which already had extensive field office infrastructures in place across the country. In May 1998, about 9 months after CAIP became operational, the committee established a Loan Subcommittee with responsibility for reviewing the loan guarantee applications forwarded by the USDA and SBA field offices. The Loan Subcommittee was authorized to approve loan guarantees where the vote for approval was unanimous and the loan amount was under \$5 million (for USDA loan guarantees), which has been the preponderance of cases. Otherwise, the loan guarantee application is forwarded to the Finance Committee for its approval. In addition, two new staff were hired to run the direct loan component in the Los Angeles office. Direct loan applications go directly to the full Finance Committee for consideration. When the program later received additional appropriated funds in fiscal years 1999 and 2000, it then proceeded with the grants component in San Antonio and hired three staff to carry out that function. A second Funding Subcommittee was created with responsibility for reviewing the grant applications forwarded by the Grant Program office. The Funding Subcommittee's role is limited to evaluating grant applications; it does not get involved in program management.

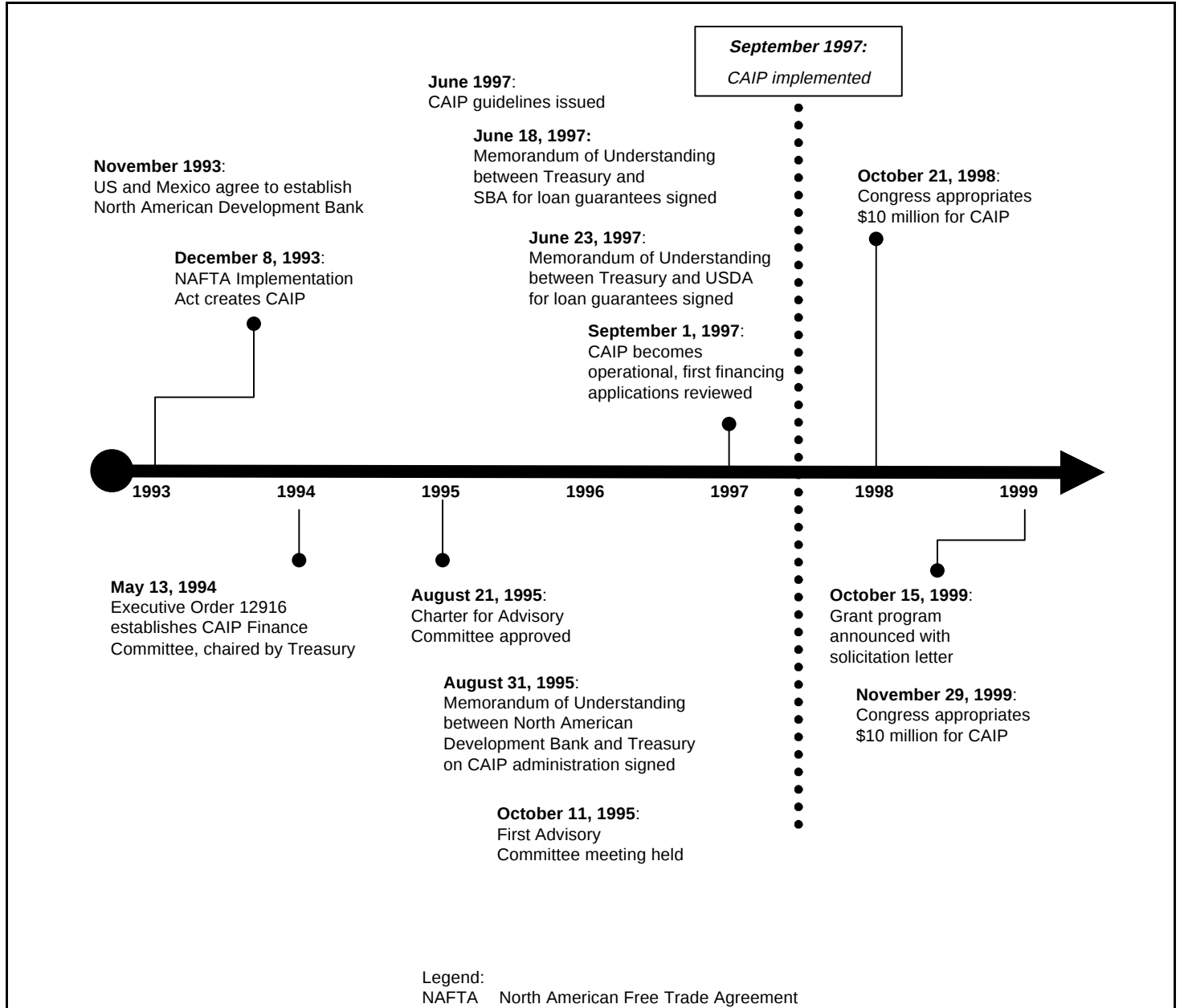
An Advisory Committee was established to provide advice to the Finance Committee on the implementation of the program. The Advisory Committee's primary role was to participate in the development of the program guidelines. It is also directed to review on a regular basis the operations of the program.⁵ The Advisory Committee was convened for the first time on October 11, 1995, and since the program became operational meets once a year to review CAIP operations. Advisory Committee meetings are open to the public, and the minutes of meetings are made available to the public.

⁵By statute, the Advisory Committee is comprised of nine members of the public, appointed by the President, who collectively represent community groups whose constituencies include low-income families; scientific, professional, business, nonprofit, or public interest organizations or associations, which are neither affiliated with nor under the direction of a government; for-profit business interests; and other appropriate entities with relevant experience.

In addition to the Advisory Committee, the statute also provided that an ombudsman be appointed. The ombudsman's function was to establish procedures for receiving comments from the general public on the operation of CAIP and to perform an independent inspection and programmatic audit of the operation of CAIP. As of August 25, 2000, an ombudsman had not been appointed. Treasury officials told us that the ombudsman position had not been filled because funds were never appropriated for this purpose, and they did not want to deplete CAIP's capital (the 10 percent of the paid-in capital of the North American Development Bank set aside for CAIP). However, there is a precedent for using CAIP's capital to pay program staff salaries, since the staff of the Los Angeles and San Antonio offices are paid from this source.

Management Structure Is Inefficient

It took the Finance Committee more than 3 years to establish the program and provide financing to eligible counties. Much of the first 3 years of the program was spent by the Finance Committee in defining the program to be delivered and developing program eligibility criteria and guidelines. The Committee also signed memorandums of understanding with the North American Development Bank on CAIP funding and with USDA and SBA to establish loan guarantee partnerships. The program did not become operational until September 1997. Figure 2 provides a chronology of management actions taken in developing the program.

Figure 2: Time Line of CAIP Implementation

Source: Treasury Department.

Because the Finance Committee is comprised of high-level officials from six federal agencies, getting a quorum convened and reaching consensus decisions can take time. For instance, the new grants component was announced in October 1999; grant applications were due January 17, 2000; and program officials planned to finalize the grant awards by the end of March 2000. A second round was tentatively planned to start in July 2000. However, the first-round grant decisions were not approved by the Finance Committee until August 1, 2000, in part because of caution related to establishing a new grant program and learning as they went along, and because of delays in convening meetings.⁶ In another example, the Finance Committee received a direct loan application in October 1999. It approved the loan in January 2000 but did not authorize release of the funds until August 11, 2000, an unusually long lag in closing the loan. The prior two loans had been closed within 1-2 months after approval. The time lag appeared to reflect the amount of time it took the Finance Committee to modify some of the terms of the proposed loan application and reach agreement with the borrower.

The Finance Committee Chair said that it has been difficult for the Finance Committee to oversee the development of new CAIP programs and to review the disbursement of all program financing in a timely manner. He said that maintaining the current management decision-making structure may be even more difficult in the future with the expected growth of the new grant program. He told us that he plans to hire a full-time national director and an attorney for CAIP, which may expedite future decision-making and program implementation. However, it is still not clear the degree to which the Finance Committee will actually delegate decision-making authority to this new program director, so it is uncertain whether the decision-making process will be improved.

Eligibility Procedures Underestimate Dislocated Workers, and Outreach Efforts Have Been Limited

CAIP's eligibility procedures are complex and rely on a database that, while the best available data, is not designed as a measure of the impact of the North American Free Trade Agreement (NAFTA) on communities. The program's current procedures for utilizing these data result in underestimating dislocated workers and could eliminate some affected counties from consideration. Once eligibility is determined, we found that

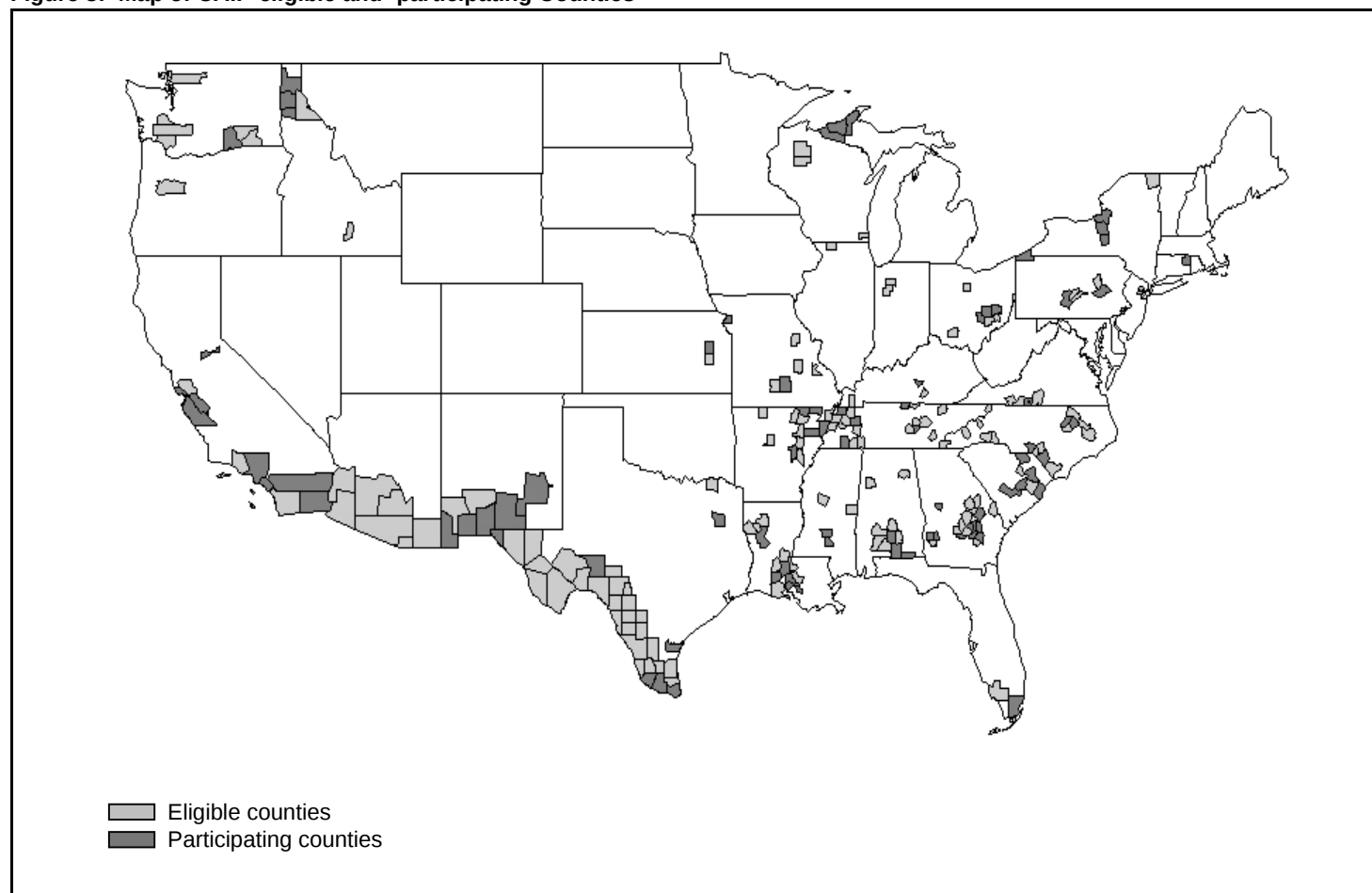
⁶The Finance Committee had not publicly announced the first-round grant results as of September 14, 2000.

efforts to notify counties of their program eligibility and to conduct outreach to eligible and potentially eligible counties have been limited.

Counties Receiving CAIP Financing

We found that CAIP had designated 228 counties in 30 states and Puerto Rico as eligible for its assistance, while 83 counties in 24 states had actually participated in the program, as of June 8, 2000. The eligibility and participation of counties are illustrated in figure 3.

Figure 3: Map of CAIP-eligible and -participating Counties



Note: Map does not show Alaska, Hawaii, or Puerto Rico. Alaska has one eligible county, which has participated in CAIP. Hawaii does not have any eligible counties. Puerto Rico has four eligible counties, none of which have participated in CAIP.

Source: Based on information provided by CAIP, USDA, and SBA.

Eligibility Criteria

Eligibility for CAIP assistance is based on two criteria: whether a county (1) has experienced significant job losses attributable to NAFTA and (2) needs transition assistance to adjust economically to these job losses. The measure of job losses attributable to NAFTA is generally based on the Labor Department's certifications of workers who have lost their jobs or are threatened with separation due to trade with Canada or Mexico. To demonstrate significant job losses, the county must have more than 500 Department of Labor-certified workers in an urban county or more than 300 in a rural county during a 36-month period. The measure of need for transition assistance is whether the county's unemployment rate is 1 percent or more above the national average unemployment rate during the past 12 months.⁷ Eligibility for the program was originally for 36 months; however, this was adjusted to 12 months on March 10, 1999,⁸ and eligibility can be renewed for periods of 12 months based upon continued evidence of need, as shown by an unemployment rate at least 1 percent over the national average.

CAIP also has two special provisions related to eligibility. The first provision designated all border counties, defined as U.S. counties that have any part located within 62 miles (100 kilometers) of the U.S.-Mexico border, as eligible beginning October 1, 1999. The border counties' eligibility does not have an expiration date. The second provision is for special cases, in which counties that do not qualify under the regular process can demonstrate adverse impact from NAFTA and become eligible. Adverse impact is demonstrated by evidence of job losses due to a firm's relocation of production to Canada or Mexico or due to increased imports from Canada or Mexico.

⁷County unemployment rates are measured using the Local Area Unemployment Statistics of the Labor Department's Bureau of Labor Statistics. The national unemployment rate is measured using the National Unemployment Statistics of the Bureau of Labor Statistics.

⁸Counties designated eligible before March 10, 1999, were "grandfathered" for the full remainder of the 36-month designation period.

Eligibility Data and Procedures

The measure of job losses attributable to NAFTA is based on the Labor Department's certifications under the NAFTA-Transitional Adjustment Assistance Program.⁹ These certification data estimate the number of job losses due to firm relocation to or increased imports from Mexico and/or Canada. Labor Department officials who administer the program stress that the certification data are only a gross proxy for job losses due to NAFTA for a number of reasons. First, they point out that it is very difficult to tie job losses directly to a trade agreement like NAFTA. Second, the number of workers reported as certified under the NAFTA-Transitional Adjustment Assistance Program is based in part on an estimation of potential layoffs at the time a petition is filed with the Department of Labor, and this may understate or overstate eventual job losses. The Department of Labor rarely makes adjustments to these estimations after the final job reductions are made by the firm, according to Department of Labor officials. While CAIP administrators are aware of the limitations in the certification data for measuring the impact of NAFTA at the county level, they point out that there is no other source of information relating job losses to trade with Mexico and Canada; these are the best available data.¹⁰

In examining the procedures the Treasury Department uses to process NAFTA-Transitional Adjustment Assistance certification data to determine CAIP eligibility, we found that incomplete information transmitted to the Treasury by Labor has resulted in underestimation of affected workers in some areas. Under a discretionary component of the NAFTA-Transitional Adjustment Assistance Program, workers in secondary firms (firms that supply or assemble products produced by firms directly affected by NAFTA) can also receive program benefits. However, this data field is not transmitted to the Treasury, so that it is not included in CAIP eligibility calculations. Since 1995, 57 petitions for secondary firms, accounting for an estimated 3,700 workers, have made workers eligible for benefits under the NAFTA-Transitional Adjustment Assistance Program. None of these

⁹The Labor Department's NAFTA-Transitional Adjustment Assistance Program provides extended unemployment compensation and retraining benefits to workers whose jobs are eliminated due to trade with Mexico and Canada and who are certified eligible for program assistance.

¹⁰Legislative proposals are pending to consolidate the NAFTA-Transitional Adjustment Assistance Program with the larger Trade Adjustment Assistance Program. If such a consolidation is made, CAIP's use of Labor Department data could be compromised if Labor does not continue to distinguish which workers are certified due to trade with Canada and Mexico. CAIP's eligibility procedures depend upon continued identification of job losses attributable to NAFTA.

workers were counted when determining CAIP eligibility. This undercounting did not impact counties' eligibility when CAIP eligibility was recalculated including these workers. However, neglecting to include secondary workers in the future could result in failure to identify eligible counties.

Notification and Outreach to Eligible Counties

Efforts to notify counties of their eligibility for the program or to provide counties with information about program financing assistance have been limited. Counties are not directly notified by CAIP when they receive CAIP eligibility. While letters are sent to Members of Congress representing the newly designated communities, notifications are not sent directly to eligible counties. This can be a problem because counties generally do not apply directly for CAIP eligibility, rather eligibility designations result from quarterly computer runs of Labor Department certification and unemployment data. Therefore, counties that become eligible for CAIP may not even be aware of the program unless notified by program officials. For example, when the new CAIP grants component was established, the grants staff created an extensive outreach database and conducted a large, targeted mailing to 6,200 addressees in eligible counties. In response to the solicitation letter, a number of counties stated that they had been unaware of the existence of CAIP, much less their eligibility for the program.

CAIP has also done limited outreach and marketing of the program in eligible counties. Most of the outreach that has been done to inform counties about CAIP was undertaken through SBA and USDA field offices and their network of bankers and contacts with chambers of commerce. The CAIP Los Angeles office has conducted outreach conferences in newly designated counties when possible in conjunction with USDA or SBA field staff but has been hampered by limited staff and funding for outreach activities, according to a program official. The Los Angeles office has also sent articles about the program to industry or trade journals and has created a Web site in conjunction with the University of California at Los Angeles' North American Integration and Development Center. The Web site is a useful information source for those counties that are already aware of the program.¹¹ In addition, the CAIP grants mailing appears to have generated interest in CAIP direct loans and loan guarantees as well, according to program officials.

¹¹The Web site address is www.nadbank-caip.org.

In order to gain a better understanding of CAIP outreach efforts, we visited two communities with high levels of CAIP activity—El Paso, Texas, and Coeur d’Alene, Idaho. We met with agency officials, bankers, and participating small business owners, as well as with community/economic development officials. We supplemented our field work with telephone interviews with agency officials in USDA and SBA field offices in Louisiana, South Carolina, New York, and California. While it appeared that substantial outreach efforts had been undertaken in El Paso and Coeur d’Alene, we found limited knowledge of the program among businesses. Most of the bankers were aware of the program; however, many of the community/economic development officials, bankers, and business owners that we talked to believed that greater outreach was needed. In addition, in our interviews with agency officials in SBA and USDA field offices, the assessment of most of the agency officials we talked to was that most in their business community were not aware of the program.

Results of Efforts to Stimulate Private Sector Employment and Growth

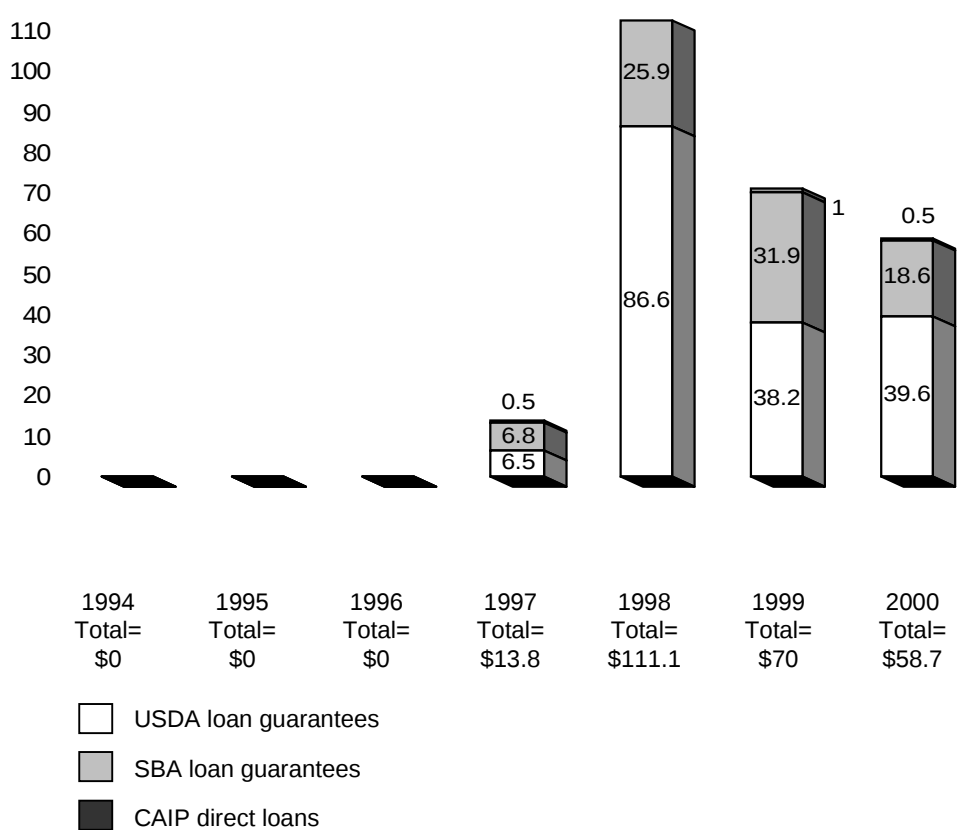
The program’s efforts to stimulate private sector employment and growth in eligible counties have been channeled through three types of financing: loan guarantees, loans, and grants. A total of about \$257 million in financing has been provided, with loan guarantees predominating. However, it is not clear what the impact of the financing assistance is, because CAIP does not have a monitoring system in place to measure program outcomes.

Three Types of Financing Provided—Loan Guarantees, Loans, and Grants

CAIP is designed to assist the business community through loan guarantees, loans, and grants. Figure 4 shows the amount of financing provided to eligible counties since September 1997. To date, loan guarantees have been the primary financing mechanism used and represent 99 percent of total financing. Two direct loans have been approved, and the new grant program is finalizing its first round of grant awards.

Figure 4: CAIP Financing to Assist Distressed Counties Since Start of Program, as of June 8, 2000

Dollars in millions



Notes:

1. The CAIP Grant Program awarded \$600,000 to a pilot grant project in 1999. This number is not shown in figure 4 because it could not be adequately represented on the graph.
2. Data are based on calendar year calculations.
3. Data for 2000 are for January-June 8.

Source: SBA, USDA, and CAIP Los Angeles office.

Loan Guarantees

Loan guarantees are provided through existing federal loan guarantee programs at USDA and the SBA. Specifically, CAIP established a lending partnership with the USDA Business and Industry Guaranteed Loan Program and the SBA 7(a) Loan Guarantee Program.¹² CAIP benefits from their field infrastructure and underwriting capabilities and, in return, pays for the guarantee fee (usually passed on by the lender to the borrower) and the subsidy cost to the government for the agencies (which, otherwise, would be covered by the USDA and SBA budgets), as well as several administrative costs. All eligibility criteria established by USDA and SBA for financing under these programs remain the same. In addition, the following CAIP criteria have been added:

- The borrower must devote a majority of the loan principal made available under CAIP to opening a new facility, expanding operations at an existing facility, or improving a firm's competitive position.
- The project must demonstrate a capacity to create new jobs, or preserve jobs at risk of being lost, over a 24-month period.
- The project must demonstrate a capacity to create or preserve at least one job for every \$70,000 of the guaranteed portion of the loan principal made available under the program.

Loans

CAIP also offers a direct loan program designed to assist borrowers that do not meet the criteria for conventional financing or for USDA or SBA loan guarantees. Since the direct loan program's inception in September 1997, two loans totaling \$2 million have been made—one in California and one in Texas. One loan was made to the California Coastal Rural Development Corporation for \$1 million. Cal Coastal, a community-based, nonprofit lender, is using the loan as a line of credit to provide up to 10 percent of the total loan amount for USDA Business and Industry loans in distressed communities that otherwise could not have qualified for these loans. The other loan, also for \$1 million, was made to the Greater El Paso Chamber of Commerce, which is renovating a former Levi-Strauss factory for use as a workforce development center and a business resource center.

Grants

Formally launched on October 15, 1999, the Grant Program is the third and newest of the CAIP financing programs. It is designed to assist in the creation or preservation of jobs for impacted counties through specific project and technical assistance grants. Up to \$6 million will be available to

¹²For more information about these loan guarantee programs, see appendix I.

fund the first round of grant awards. In March 1999, before the new grant program was announced, the Finance Committee approved a pilot grant project for \$600,000 to the New Mexico Border Authority in Dona Ana County, New Mexico. The grant was seed money for a retraining project for a projected 1,200 workers in this highly NAFTA-impacted area. (For more information on CAIP direct loans and grants, see app. I.)

Amount of Loan Guarantees, Loans, and Grants Provided by CAIP

About \$257 million in financing has been provided to eligible counties—\$254 million in loan guarantees, \$2 million in loans, and \$600,000 in grants. A summary of CAIP financing activity showing the number of loan guarantees, loans, or grants and their value, is provided in table 1.

Table 1: CAIP Financing Activity, September 1997-June 8, 2000

Financing component	Number	Value
Loan guarantees ^a	366	\$254, 137,345
USDA Business & Industry Loan Guarantee Program	89	170,955,290
SBA 7(a) Loan Guarantee Program	277	83,182,055
Direct loans	2	2,000,000
Grants ^b	1	600,000
Total	369	\$256,737,345

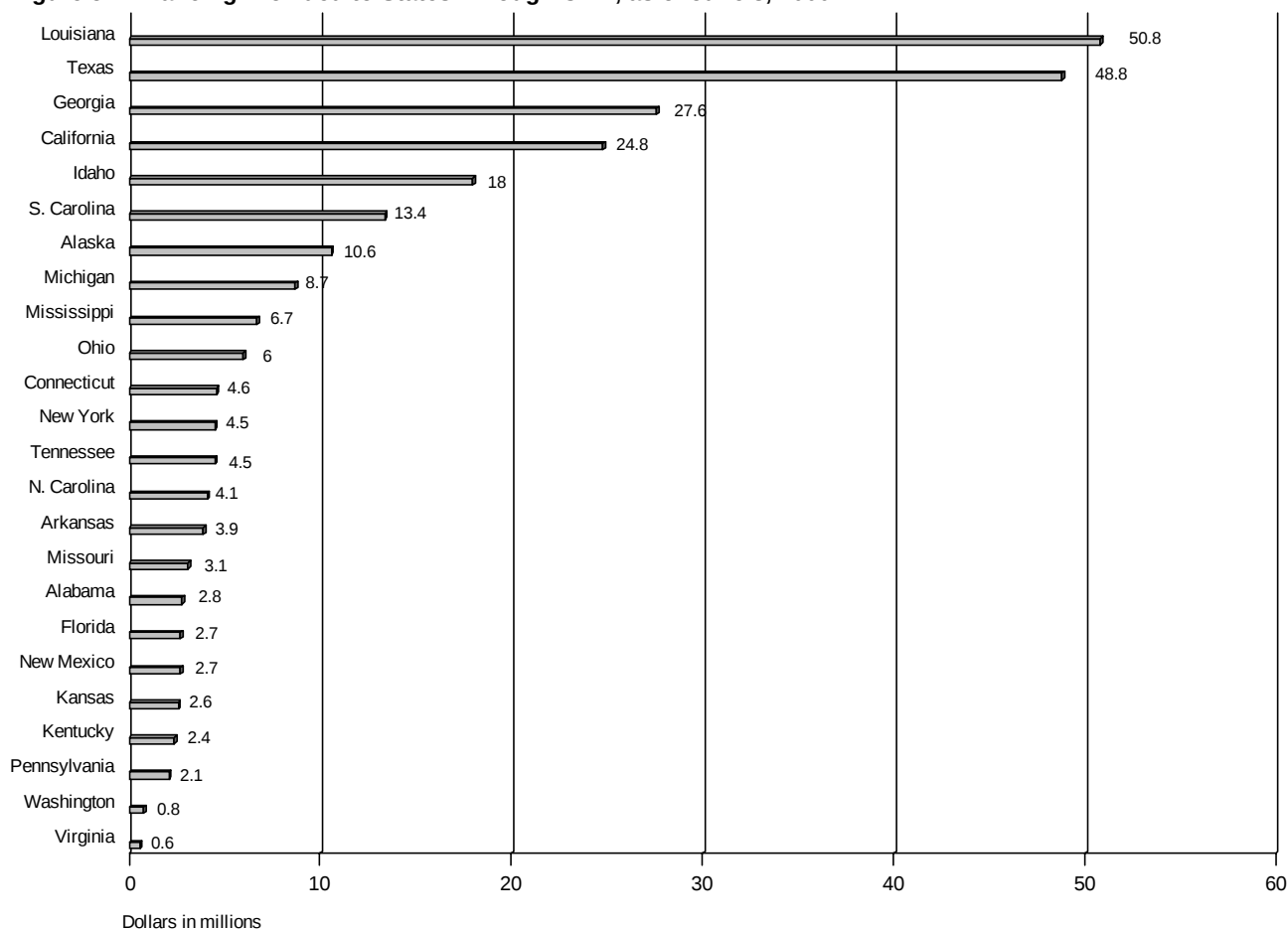
^a Table excludes loan guarantees approved but withdrawn by the borrowers before closing and cancelled by the agencies.

^b This is for a pilot grant project, approved in March 1999. The first round of grants, representing a total of \$6 million, has been decided, but as of September 14, 2000, they had not been publicly announced.

Source: USDA, SBA, and the Treasury.

Not all of the eligible counties have actually participated in CAIP. As previously mentioned, of the 228 counties in 30 states and Puerto Rico designated eligible for program financing, we found that 83 counties in 24 states had actually participated in the program, as of June 8, 2000. The community with the highest level of loan guarantee activity was El Paso, Texas, which had 114 SBA 7(a) loans totaling \$28 million in value and SBA projections of about 927 jobs created or retained. El Paso also received a direct loan for \$1 million. The largest state recipients of program financing are shown in figure 5. Loan guarantees represent the majority of the assistance provided to each state. Louisiana, with \$50.8 million in loan guarantees, and Texas, with \$48.8 million in loan guarantees and a direct loan, had by far the highest level of activity in terms of value of financing, together accounting for 39 percent of the total. When the next three highest-ranking states—Georgia, California, and Idaho—are also included, the top five states accounted for 66 percent of the total value of the financing. At the other end of the spectrum, eligible counties in Arizona, Illinois, Indiana, New Jersey, Oregon, Puerto Rico, and Wisconsin had not participated in the program.¹³

¹³In some cases, lack of participation may be due to recent designation of eligibility, or a relatively low level of participation may be due to a limited number of eligible counties in that state, according to program officials.

Figure 5: Financing Provided to States Through CAIP, as of June 8, 2000

Source: USDA and SBA.

We visited two communities with high levels of CAIP activity—El Paso, Texas, and Coeur d’Alene, Idaho—in order to gain a better understanding of the effect of CAIP financing. We supplemented our field work with telephone interviews with the USDA and SBA offices responsible for CAIP loan guarantees in eligible counties in Louisiana, South Carolina, and New York, as well as the areas of Los Angeles in southern California and Watsonville in central California. Most USDA and SBA officials we talked to said that CAIP had been valuable in increasing the volume of loans that they could generate in these distressed counties.

Most USDA officials we talked to said that CAIP was valuable in increasing the availability of funds for its business and industry loan guarantees. The Business and Industry Guaranteed Loan Program usually uses up its state allocations early in the fiscal year, and additional funds are generally not available until the end of the fiscal year when any unused funds are returned to the National Reserve Office and can be tapped. While CAIP funds are used to make loan guarantees throughout the year, according to USDA officials they play a critical role in enabling loans that USDA would not otherwise be able to make during this time. USDA officials said that they did not pay the 2-percent guarantee fee with CAIP funds, rather they used all available CAIP funds to increase the pool of funds for loan guarantees. The average size of CAIP-supported USDA Business and Industry loan guarantees was about \$1.9 million, according to CAIP.

Most SBA officials we talked to said that CAIP was valuable in paying the 7(a) guarantee fee, which was a burden for most small business borrowers. The average size of CAIP-supported SBA 7(a) loan guarantees was about \$300,000, according to CAIP, with guarantee fees ranging from 2 percent to 3.875 percent of the guaranteed portion of the loan, depending on the size of the loan. Most of the participating lenders and borrowers we talked to agreed, saying that not having to pay the guarantee fee had been a benefit for the borrowers and had freed up needed operating capital during their business expansion. Most lenders and borrowers said that they probably would have completed the SBA 7(a) loan without the CAIP benefit; however, lack of the benefit would have increased the risk to their small business expansion projects. Having the extra capital helped to make the business stronger and allowed them to hire more workers.

CAIP Does Not Monitor Loan Outcomes

CAIP has no requirements for monitoring the outcomes of its financial assistance to eligible counties, which would allow it to measure the degree to which the program has actually assisted distressed counties. Program officials monitor program outputs, such as the number of loans, loan amounts, and CAIP expenses. As such, these are measures only of what CAIP is providing counties, not what has resulted in the counties due to the loans. Program officials do track the number of jobs created or retained due to CAIP loan guarantees, which program records indicate was 9,208 jobs, as of June 8, 2000. However, these data are based solely on the projections made by businesses when they apply for the loan guarantee. There is no follow-up to monitor the actual number of jobs that the borrowing businesses had realized in the 24 months following the loan,

although this estimate is a primary condition for qualifying for the CAIP loan guarantee.

The issue of creation of jobs is a complex one. As we have stated in prior work, economists and policymakers recognize that employment levels are substantially influenced by macroeconomic policies, including actions of the Federal Reserve. At the national level, under conditions of full employment, government finance assistance programs may largely shift production among sectors within the economy rather than raise the overall level of employment in the economy. Therefore, it should be kept in mind that the jobs figure that CAIP reports may not represent net job gains in a period of full employment.

Another consideration in CAIP's jobs numbers is the question of the "additionality"—that is, would these jobs have been created or retained anyway in the absence of the program. For instance, most of the SBA 7(a) lenders and borrowers we interviewed said that the SBA 7(a) loan guarantees provided under CAIP would still likely have been made without CAIP participation. While CAIP financing may have helped stimulate economic growth in distressed counties, unless CAIP develops appropriate performance measures and a monitoring system to track them, it will not be able to establish the degree to which the program has actually assisted these counties.

Conclusions

The additional contribution that CAIP makes to distressed counties appears limited, as most of the assistance provided to date—\$254 million in loan guarantees, or 99 percent of the total program support—is channeled through existing USDA and SBA loan guarantee delivery mechanisms. Although agency officials, bankers, and participating businesses that we interviewed said they valued this financing, they acknowledged that a significant amount of these loan guarantees would have been provided without the program. Answering this fundamental question requires a monitoring system that measures program outcomes and demonstrates the value of the program.

We identified several additional areas where program management could be improved. First, the Finance Committee's retention of certain day-to-day managerial functions has resulted in a highly centralized and inefficient management decision-making structure. Second, eligibility determinations are very complex and rely upon a Department of Labor database that was not designed for this purpose. Furthermore, eligibility determination

procedures do not ensure the completeness and accuracy of the data, which could potentially result in eliminating some counties from qualifying for program assistance. Finally, adequate notification has not been provided to eligible counties.

Recommendations for Executive Action

In order to improve the management and administration of the Community Adjustment and Investment Program, we recommend that the Secretary of the Treasury direct the Chair of CAIP's Finance Committee to take the following steps.

1. Consider delegating additional decision-making authority from the Finance Committee to program staff for loans and grants.
2. Establish procedures to ensure that the data used in determining eligibility for program assistance are complete and accurate.
3. Improve notification of eligible counties by directly informing them when they are found to be eligible for the program.
4. Establish outcome measures and a monitoring system to track the degree to which the program has actually assisted distressed counties.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from the Department of the Treasury, the SBA, and USDA (see apps. III to V). The Treasury agreed with our recommendations to establish procedures for complete and accurate eligibility data and to improve eligibility notification and said it was already taking steps to implement an improved eligibility notification process. The SBA and USDA did not comment on these two recommendations. In addition, the Treasury, the SBA, and USDA also provided technical comments, which we incorporated in the report as appropriate.

The Treasury, the SBA, and USDA did not agree with our recommendation that the Finance Committee consider delegating additional decision-making authority, particularly for loan guarantees. In addition, the Treasury said that it wanted to retain the current process for direct loans and grant awards because this type of assistance occurs infrequently. The three agencies provided information clarifying the role of the Finance Committee in the loan guarantee approval process, and as a result we have

revised our report and focused our recommendation on delegating decision-making authority for grants and loans. Just as agency officials indicated that the loan guarantee process became more efficient once the Finance Committee delegated approval authority to the Loan Subcommittee, other areas of program activity, such as determinations of community eligibility and the administration of direct loans and grants, would also benefit from such a delegation of decision-making authority to program staff. The Finance Committee's retention of decision-making authority in these areas is inefficient and has added substantial time—in some cases, months—to the decision-making process. Greater efficiency will be even more important in the near future, since agency officials have indicated that the Grant Program is expected to grow substantially over the upcoming year.

Finally, the Treasury agreed in principle with our recommendation that the Community Adjustment and Investment Program establish outcome measures and a monitoring system to track the degree to which the program has actually assisted distressed counties. However, the Treasury expressed concern that imposing a reporting requirement on lenders and/or borrowers involved with the program's loan guarantees would make the program less competitive than the SBA's and USDA's other loan guarantees. The Treasury indicated it would explore monitoring through informal surveys or through site visits or interviews by the SBA and USDA field offices. The SBA and USDA both noted that the program's Los Angeles office had conducted a follow-up survey of jobs realized by borrowing businesses.

We do not believe that follow-up monitoring of the Community Adjustment and Investment Program's loan guarantees, loans, or grants will make them less competitive or desirable to recipients. In fact, the SBA and USDA already conduct their own follow-up activities for their loan guarantees, and in two of the three partner programs are already collecting some degree of job results information. As such, the program's loan guarantees would clearly not be put at a competitive disadvantage if the program instituted a monitoring system, as recommended in our report. In terms of the survey mentioned by the Treasury, the SBA, and USDA, the program's Los Angeles office did conduct a preliminary survey from October 1998 to February 1999 of jobs created or retained as a result of the program's loan guarantee partnership with USDA during the program's first year of operation. However, this was a onetime snapshot of one of the program's loan guarantee partnerships and does not constitute a consistent or

effective monitoring system that would provide program outcome measures, as called for in our report.

We are sending copies of this report to appropriate congressional committees. We are also sending copies of this report to the Honorable Lawrence H. Summers, Secretary of the Treasury; the Honorable Dan Glickman, Secretary of Agriculture; and the Honorable Aida Alvarez, Administrator of the Small Business Administration. Copies will also be made available to others upon request.

If you or your staff have any questions about this report, please contact me on (202) 512-4128. Additional GAO contacts and staff acknowledgments are listed in appendix VI.

A handwritten signature in cursive script that reads "Susan S. Westin".

Susan S. Westin, Associate Director
International Relations and Trade Issues

Community Adjustment and Investment Program Financing for Distressed Communities Through Loan Guarantees, Loans, and Grants

The Community Adjustment and Investment Program (CAIP) was established in December 1993 to assist communities that have suffered job losses due to changing trade patterns with Mexico and Canada as a result of the 1993 North American Free Trade Agreement (NAFTA). It provides financing assistance to these distressed communities through loan guarantees, loans, and grants in order to stimulate private sector employment and growth.

Loan Guarantees

CAIP has formed a lending partnership with the Department of Agriculture (USDA) and the Small Business Administration (SBA) in order to provide loan guarantees. This component, called the CAIP Federal Agency Program, has partnered with the USDA Business and Industry Guaranteed Loan Program and the SBA 7(a) Loan Guarantee Program. Further, the Finance Committee that manages CAIP approved the addition of the SBA's 504 Program to the Federal Agency Program in April 2000. It was initiated on August 10, 2000.

USDA's Business and Industry Guaranteed Loan Program is administered by the Rural Business-Cooperative Service of USDA Rural Development. The primary purpose of the program is to create and maintain employment and improve the economic and environmental climate in rural communities. Loan guarantees are limited to a maximum of \$10 million per borrower, although the Rural Business-Cooperative Service Administrator may approve loans up to \$25 million. The guarantee will cover from 60 to 80 percent of the loan, depending on the size of the loan. Repayment must be made within 7 years for working capital, 15 years for machinery and equipment (or its useful life), and 30 years for real estate. The guarantee fee is generally 2 percent of the guaranteed principal amount.¹

¹More detailed information on the Business and Industry Guaranteed Loan Program is available at its Web site: www.rurdev.usda.gov.

The SBA's 7(a) Loan Guarantee Program is its primary business loan program, generally used for business start-ups and to meet the varied short- and long-term needs of existing small businesses. A 7(a) guaranteed loan may be used for most business purposes, including start-up, expansion, equipment purchases, working capital, inventory, or real estate acquisition. Participating lenders—small business lenders that have entered into lending agreements with the SBA—provide loans in conjunction with SBA guarantees. By reducing risk, guarantees expand the lenders' ability to make small business loans. Generally, the SBA can guarantee up to \$750,000 of a private sector loan. The guarantee rate is 80 percent on loans of \$100,000 or less and 75 percent on loans greater than \$100,000. The loan can extend to 10 years for working capital and 25 years for fixed assets. The guarantee fee ranges from 2 to 3.875 percent, depending on the size of the loan.²

CAIP recently decided to add the SBA's 504 Loan Program to the CAIP Federal Agency Program. The 504 Loan Program provides long-term, fixed-rate financing for businesses needing to acquire industrial or commercial buildings or heavy machinery and equipment. Loans under the 504 Program are developed through certified development companies (nonprofit corporations sponsored by private-sector organizations or by state and local governments to contribute to economic development), working in partnership with private lenders and the SBA. The certified development company finances its part of the loan through the sale of a debenture³ to private institutional investors with the SBA fully guaranteeing the repayment of the debenture. The SBA can guarantee debentures covering as much as 40 percent of a 504 project. The maximum SBA debenture generally is \$750,000 (up to \$1 million, if the project meets a public policy goal). For every \$35,000 of debenture financing in the certified development corporation's portfolio, the SBA requires that an average of one job be created or retained within 2 years of the project's funding.

²More detailed information on SBA 7(a) loans is available at its Web site: www.sba.gov/financing.

³A debenture is a bond backed by the general credit of a corporation rather than a specific lien on particular assets.

Direct Loans

The CAIP Direct Loan Program is administered by CAIP's Los Angeles office. While direct loans must generally meet the same criteria CAIP has set for its loan guarantee programs, the application process is much more involved. Both the application process and the evaluation and selection process for direct loans are delineated in the CAIP guidelines. For example, to be eligible for a direct loan, the director of the program conducts an initial evaluation of the project using specified criteria and a scoring system that includes elements such as county job losses and the need for transition assistance, as well as the anticipated benefits of the project to that county. The director submits to the Finance Committee only those projects receiving a score of 60 points or greater out of a potential 100 points.

Although the Los Angeles office has reviewed a number of loan requests, it has made only two direct loans. The first direct loan was made to California Coastal Rural Development Corporation for \$500,000 and was approved by the Finance Committee on September 5, 1997. The loan to Cal Coastal is being used as a line of credit that has allowed this community-based, nonprofit lender to provide up to 10 percent of the total loan amount of the loans guaranteed by USDA's Business and Industry/CAIP loan guarantee program.⁴ Since the direct loan to Cal Coastal closed in October 1997, Cal Coastal has made three Business and Industry/CAIP loans totaling over \$2.2 million, and it has projected the loans will help create or retain 135 jobs, as of April 25, 2000. According to the CAIP Direct Loan Program Director, Cal Coastal would likely not have been able to make these loans without the direct loan because it lacks the capital to fund the required 10 percent that is not guaranteed.

The Finance Committee approved a second tranche, or installment, of \$500,000 to Cal Coastal on January 4, 2000. Cal Coastal had originally requested \$1 million, and the loan had been approved in two installments of \$500,000. However, the Finance Committee did not close the loan, that is, transfer the funds, until August 11, 2000, according to the CAIP Direct Loan Program Director. Cal Coastal has requested the second installment

⁴The USDA Business and Industry/CAIP loan guarantee program provides a 90-percent loan guarantee, leaving 10 percent that is not guaranteed and that must be carried by the lending institution. For example, for a \$1 million loan, USDA would guarantee 90 percent, or \$900,000, and the lender would hold the unguaranteed portion (10 percent, or \$100,000). In this example, the CAIP line of credit would be used to fund the unguaranteed amount. The guaranteed portion of the loan is salable in the secondary market, which the lender would immediately sell off in order to recoup the majority of the total loaned.

because its existing line of credit with CAIP has been depleted by about half. In addition, Cal Coastal has more Business and Industry/CAIP loans that it is working to complete but that call for about \$100,000 more than is available under the first installment.

The second direct loan was made to the El Paso Workforce Collaborative, a wholly owned subsidiary of the Greater El Paso Chamber of Commerce, for \$1 million and was approved by the Finance Committee on May 13, 1999. This direct loan has enabled the El Paso Chamber of Commerce to make renovations to a former Levi-Strauss factory. The renovated facility will be used as both a workforce development center and a business resource center. As long as the Chamber uses the building as a workforce development center, interest charges accrued on the loan will be waived. Although the facility was not fully finished when we visited El Paso in June 2000, the Chamber had submitted plans and specifications for its completion. The Chamber also recently reported that about 98 percent of the renovated building was leased.

Besides managing the direct loan program, the CAIP Los Angeles office has provided some technical assistance, outreach, and monitoring. For example, the Los Angeles office provides technical assistance to businesses interested in receiving benefits under the CAIP Direct Loan or Federal Agency programs. The office has been involved in providing technical assistance to several applicants that resulted in loans made through the Federal Agency Program in conjunction with commercial lenders. In addition, outreach activities include working with communities applying for CAIP eligibility to help them identify actual NAFTA impacts, as well as attending various conferences to help market CAIP and efforts to maintain the CAIP Web site. Finally, in an effort to help monitor CAIP eligibility and activity, the Los Angeles office prepares an annual CAIP status report that captures eligibility and activity data by state.

Grants

The CAIP Grant Program is administered by the CAIP Grant Program office, located in the San Antonio, Texas, headquarters of the North American Development Bank. Among other responsibilities, the Grant Program office has core activities that include designing the national selection process and, when grants are awarded, monitoring project implementation. Up to \$6 million has been committed to fund the first round of grant awards. A project may be funded under the Grant Program if it meets applicant⁵ and area eligibility requirements laid out in the solicitation for grant applications. In addition, it must meet broad eligibility criteria for projects and programs established by the Finance Committee. Two types of grants may be funded: specific project grants or technical assistance grants. For example, a specific project grant may be awarded to a project that provides assistance to retain an existing business that has threatened to leave the United States. A technical assistance grant may be obtained to support the development of specific projects or programs designed to create or preserve jobs (for example, providing preparation assistance to applicants under the CAIP Direct Loan Program or similar assistance programs).

In addition to the eligibility requirements, a formal application that includes a work plan statement must be completed and submitted to the Grant Program office. The application is then screened for eligibility and completeness, and a competitive scoring system is employed to determine which projects will be funded. A Funding Subcommittee with grants experience implements the scoring system, which includes a recommended slate of applicants for endorsement to the Finance Committee. Once an applicant is selected to receive a grant award, the awardee will be required to enter into a grant agreement that includes requirements to complete the project and report on the project's progress.

The Grant Program received 81 specific project applications and 55 technical assistance applications, with a total amount requested of about \$46.4 million. After the grant solicitation closed in January 2000, the Grant Program office staff and the Funding Subcommittee developed specific review procedures and implemented the final procedures approved by the Finance Committee. The Finance Committee received and approved the

⁵An eligible applicant is any nonprofit (501 (c) (3) or 501 (c) (4)) organization, public or private institution of higher education, state or local political subdivision or agency, or Indian tribal government.

recommended slate of applicants from the Funding Subcommittee in June. Then the Grant Program office performed its due diligence requirements to ensure the integrity of the Grant Program. Although an announcement on the grant awards had been anticipated for March 2000, the awards were not approved by the Finance Committee until August 1, 2000, and still had not been publicly announced as of September 14, 2000.

A pilot project to fund the New Mexico Border Authority in Dona Ana County, New Mexico, was approved by the Finance Committee on March 10, 1999. The grant request for \$600,000 was planned as seed money for providing retraining to approximately 1,200 workers in the Dona Ana region of New Mexico, a highly NAFTA-impacted area. The pilot grant project was initiated in part to help the Grant Program office gain some experience in the development of a grant program and in part to encourage support for the new Grant Program.

Administratively, the Grant Program has also benefited from its affiliation with the North American Development Bank office in San Antonio, Texas, according to the Grant Program Director. The Bank provides additional resources to CAIP through specific services supplied to the Grant Program. For example, Grant Program staff have benefited from access to the expertise of Bank procurement and disbursement specialists, as well as from administrative support, such as the Bank's receptionist. Having these types of resources available to the CAIP Grant Program has proved beneficial and provided it with important efficiencies, according to the Grant Program Director.

Objectives, Scope, and Methodology

Concerned about whether the Community Adjustment and Investment Program is providing timely and useful assistance to communities suffering job losses due to changing trade patterns with Mexico and Canada, the Chairman and Ranking Minority Member of the Senate Finance Committee asked us to assess (1) how the program has been structured, (2) how program eligibility criteria and outreach efforts have been implemented, and (3) what the results of efforts to provide assistance to eligible communities were.

To obtain information on how the program has been structured, we interviewed agency officials from the Departments of the Treasury and Agriculture and the Small Business Administration and reviewed program documents, including minutes of CAIP Finance Committee meetings. We reviewed the minutes and briefing packages for all of CAIP's Advisory Committee meetings that have been held. We also attended the Advisory Committee's annual meeting on April 25, 2000, in Washington, D.C.

To obtain information on how program eligibility criteria have been implemented, we looked at documentation and interviewed officials at the Departments of Labor and the Treasury, as well as the CAIP Los Angeles office. We reviewed the Finance and Advisory Committee records of deliberations on establishing eligibility criteria. We also interviewed an official of the North American Integration and Development Center at the University of California in Los Angeles, which is under contract to the Department of the Treasury to conduct the actual computer runs that determine program eligibility. Further, we reviewed the procedural manual for eligibility determinations that the Treasury's Office of Economic Policy provided to the Center. In addition, we obtained and analyzed the NAFTA-Transitional Adjustment Assistance Program database that the Department of Labor provides to the Treasury for the eligibility determination.

To obtain information on how program outreach efforts have been implemented, we interviewed agency officials and reviewed program documents at the Departments of the Treasury and Agriculture, the Small Business Administration, and the CAIP Los Angeles and San Antonio offices. In order to gain the perspective of how participating eligible communities viewed CAIP's outreach efforts, we visited two communities with high usage of the program—El Paso, Texas, and Coeur d'Alene, Idaho. We selected El Paso because it was the community with the highest amount of CAIP financing, including loan guarantees and a direct loan; it was in the U.S.-Mexico border region; and it was highly impacted by NAFTA. We

selected Coeur d'Alene because it had the highest number of both USDA and SBA loan guarantees in the same area, and it was close to the U.S.-Canada border. We interviewed SBA field office officials in El Paso and in Spokane, Washington, because SBA's Spokane District Office was responsible for northern Idaho, including the Coeur d'Alene area. We interviewed USDA officials in Coeur d'Alene. In these communities, we also met with lenders, borrowers, chamber of commerce officials, economic development officials, and academics. To gain the perspective of USDA and SBA field officials in different parts of the country where there was both high and low participation in CAIP financing, we conducted telephone interviews with agency officials in California, Louisiana, New York, South Carolina, and Texas.

To obtain information on the results of efforts to provide assistance to eligible communities, we interviewed agency officials and obtained documentation at the Departments of the Treasury and Agriculture and the Small Business Administration and the CAIP Los Angeles office. In addition, for loan guarantees, we reviewed the USDA and SBA CAIP loan guarantee databases. We visited the CAIP Grant Program office in San Antonio and reviewed Grant Program procedures and a selection of applications. We also met with officials of the North American Development Bank who have been assisting the Grant Program office. Our field visits to El Paso and Coeur d'Alene were also focused on gaining the perspective of these NAFTA-impacted communities on CAIP financing. As previously stated, we met with agency officials implementing the program in these communities and with lenders, borrowers, community officials, chamber of commerce officials, and economic development officials. In El Paso, we met with a Greater El Paso Chamber of Commerce official to gain his views on both CAIP loan guarantees and the direct loan the Chamber obtained. We also met with the Director of the New Mexico Border Authority, which undertook the grant pilot project. We supplemented this information with our telephone interviews with agency officials in California, Louisiana, New York, South Carolina, and Texas.

We performed our work from February through August 2000 in accordance with generally accepted government auditing standards.

Comments From the Department of the Treasury

Note: GAO comment supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220
September 14, 2000

Ms. Susan S. Westin
Associate Director, International Relations and Trade Issues
United States General Accounting Office
Washington D.C. 20548

Dear Ms. Westin:

Thank you for providing us with the opportunity to review and comment on your draft report on the Community Adjustment and Investment Program's (CAIP) program structure, program eligibility criteria and outreach efforts, and results of efforts to provide assistance to eligible counties. Since we have provided factual corrections and technical comments on the report to members of your staff (Stephen Lord and Leyla Kazaz) in a meeting on August 29, 2000, our response will be limited to the four recommendations in your report: (1) delegating decision-making authority for approving loan guarantees, (2) establishing procedures to ensure that the data used in determining eligibility for program assistance are complete and accurate, (3) improving notification of eligible counties by directly informing them of their eligibility, and (4) establishing outcome measures and a monitoring system to track the degree to which the program has actually assisted distressed counties.

(1) Delegating Decision-Making Authority

As a starting point, we want to be sure that you are aware that when the Loan Subcommittee (the subcommittee) was established on May 15, 1998, the Finance Committee delegated to the Chair the authority to endorse, on behalf of the full Finance Committee, the use of CAIP funds to make available loan guarantees for projects that the subcommittee determined met the CAIP guidelines. When the subcommittee's recommendations are unanimous, the Chair receives endorsement checklists from the subcommittee on a weekly basis that indicate its unanimous recommendation to endorse those applications. With the Chair's approval, the endorsement of a loan guarantee is conveyed on an expedited basis to the participating federal agency issuing the loan guarantee prior to the obligation of any CAIP funds. The only projects that are referred to the full Finance Committee for consideration are those projects that the subcommittee did not unanimously agree met the CAIP guidelines or that involve the use of CAIP funds above the agreed-upon ceiling amount, and this is an infrequent occurrence.

If the endorsement function were to be delegated to program staff or to the relevant agency field office, we believe that any time savings would be minimal. We will continue to evaluate alternative approaches to determine whether this process can be made even more efficient. Nevertheless, we continue to believe that the delegation of the endorsement function for loan guarantees to banks with preferred lender status would be in violation of the NADBank charter, which requires the endorsement of the United States Government for use of any CAIP funds. Finally, the Finance Committee wishes to retain the endorsement function for direct loans and slates of grant awards, as direct loans, solicitations for grant applications and the resulting slate of grant awards also occur infrequently.

See comment 1.

Appendix III
Comments From the Department of the
Treasury

2

(2) Establishing Procedures for Complete and Accurate Eligibility Data

Treasury recognizes the limitations of the NAFTA-TAA certification data for measuring the impact of NAFTA for workers in primary firms at the county level. Nevertheless, we use this data because it is the best available source. At this time, there is no other source of information relating job losses to changes in trade patterns with Mexico and Canada. With respect to including the discretionary component of the NAFTA-TAA workers in secondary firms, we support your recommendation that we consider including this component. We agree that neglecting to include secondary workers in the future may result in failure to identify eligible communities. We plan to implement your recommendation shortly.

(3) Improving Eligibility Notification

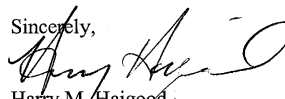
We support your recommendation to improve notification of eligible counties. Indeed, we have already implemented an improved eligibility notification process. In June 1999, we started notifying directly senior public officials of counties about the CAIP eligibility status of their respective counties and financing assistance information. The CAIP Los Angeles Office has developed a database of county officials to contact. Additionally, we continue to explore other ways to broaden the CAIP outreach efforts. We are hoping that the extensive outreach database and large targeted mailings to senior public officials in eligible counties will continue to generate interest not only in CAIP grants but also CAIP direct loans and loan guarantees.

(4) Establishing Outcome Measures and Monitoring System

Our final comment is about outcome measures and a monitoring system for the CAIP. As you know, SBA and USDA loan guarantees unrelated to the CAIP do not have a requirement for a closeout report on jobs created or retained. Imposing this requirement on CAIP loan guarantees may result in making CAIP loan guarantees less competitive than the SBA and USDA loan guarantees unrelated to the CAIP. We agree that monitoring the outcomes of CAIP's financial assistance provides a basis for measuring the degree to which the CAIP has actually helped distressed counties. Other than instituting a formal closeout report requirement, we believe that monitoring can be accomplished either through informal surveys, similar to the ones conducted by the CAIP Los Angeles Office for loan guarantees issued by the CAIP in 1997 and 1998 or through site visits or interviews by SBA and USDA field offices. We plan to explore these possibilities.

We trust that our comments prove useful.

Sincerely,


Harry M. Haigood
Deputy Assistant Secretary
(Government Financial Policy)

The following is GAO's comment on the Department of the Treasury's letter dated September 14, 2000.

GAO Comment

1. We revised the report to clarify the role of the Finance Committee in approving loan guarantees. We also modified our recommendation to focus on the need for greater delegation of decision-making authority for loans and grants.

Comments From the Small Business Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

SEP 13 2000

OFFICE OF THE ADMINISTRATOR

Ms. Susan S. Westin
Associate Director
International Relations and Trade Issues
U. S. General Accounting Office
Washington, DC 20548

Dear Ms. Westin:

Thank you for providing the General Accounting Office's (GAO) proposed report, Trade Adjustment Assistance: Opportunities to Improve the Community Adjustment and Investment Program (CAIP) (Code 711495), for review by the U. S. Small Business Administration (SBA) prior to its release. The SBA is pleased to be a partner with the U. S. Departments of Treasury (Treasury) and Agriculture (USDA) in delivering CAIP assistance to North American Free Trade Agreement (NAFTA) impacted areas.

We have carefully reviewed this report and believe that it is generally fair and very well written. My staff has made a number of comments in the margins of the draft report (see enclosure) and we have some overall comments that we would also like to offer for your consideration. They are as follows:

- GAO Report, Page 4 , 1st paragraph:

"Moreover, most of the bankers and business owners we interviewed said that the loan guarantees provided under the program in partnership with the Small Business Administration would still have been made without the program."

SBA Comments:

SBA's participation in CAIP, during the audit period, utilized its 7(a) loan guaranty financial assistance product. The 7(a) product provides loans to small businesses that cannot obtain financing on reasonable terms through normal lending channels. Businesses in eligible areas must first meet the 7(a) requirements, and in addition, they must meet the economic development objectives of CAIP. Technically, all of the loan guarantees provided under the program **could** have been made without the CAIP, but without the extra CAIP benefit to the small business borrowers.

See comment 1.

Ms. Susan S. Westin

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SBA's participation is geared to reward quality firms for creating and retaining jobs in eligible areas by providing a financial incentive to locate, stay, grow, and improve their business in the eligible area. We believe this incentive has been a factor in attracting and retaining businesses in the eligible areas. The fact that a business could qualify for a 7(a) loan guaranty does not necessarily mean that they would have chosen to locate or stay in the CAIP area. Historical 7(a) activity suggests that CAIP is making a difference when these business decisions are made. In El Paso, the most active eligible area, the average size of 7(a) loans in the 2 years preceding CAIP was \$153,000. The 7(a) CAIP to date average size for El Paso is \$265,000. This represents a 73 percent increase in capital provided to each eligible small business concern. This indicates that CAIP loans are creating larger small businesses, greater capital formation, and more employment than prior to this program.

The CAIP Finance Committee considered using SBA's lending network to target borrowers who did not meet the normal (collateral-based) lending channels and who also could not satisfy SBA's 7(a) requirement of a reasonable expectation of repayment from the operation of the business. This type of lending has several characteristics that would reduce the effectiveness of CAIP funding. First, to succeed, the business enterprise must overcome the situation that it cannot service the debt from operation of the business. Second, if the negative cash flow causes the business to fail, the jobs that were created are lost. Third, the lower likelihood of debt repayment results in a significantly higher subsidy (loss reserve). Since CAIP pays for the subsidy cost of CAIP 7(a) program loans, that would reduce the amount of capital that could be made available to the community through this program.

The CAIP Finance Committee made a conscious decision to not pursue those high-risk borrowers. They believed that CAIP would be more effective as an incentive to attract 7(a) qualified employers to eligible areas. The lower 7(a) subsidy allows greater leverage of CAIP funds to capital provided, and results in far more capital assistance to affected communities.

- GAO Report, Page 19, 3rd paragraph:

"At the national level, under conditions of full employment, government finance assistance programs may largely shift production among sectors within the economy rather than raise the overall level of employment in the economy. Therefore, it should be kept in mind that the jobs figure that CAIP reports may not represent net job gains in a period of full employment."

SBA Comments:

We believe that job creation dynamics, on a nationwide basis, and under conditions of full employment are not applicable to the CAIP. Eligible communities are discrete economically distressed areas with unemployment rates

See comment 2.

Ms. Susan S. Westin

Page 3

as high as 32.4 percent. CAIP financial assistance is intended to shift production, and therefore job creation, in favor of the eligible areas. This appears to be working. In August, 60 original eligible areas were due for a progress review after 3 years of CAIP eligibility. Seventeen of these areas have experienced dramatic improvement in their unemployment rates and have graduated from the CAIP. One of the communities improved from an unemployment rate of 14.30 percent prior to CAIP to 3.07 percent at "graduation".

- GAO Report, Page 3, first full sentence, and similar observations that relate to "Recommendation 1":

"This requirement results in a duplicative approval process, as the committee reviews applications for loan guarantees already found to have met its program eligibility standards, first by agency field officials and then by a subcommittee it established to scrutinize loan guarantee applications."

"Consider delegating additional decision-making authority, such as approving loan guarantees, from the Finance Committee to program staff, agency field offices, and banks with preferred lender status."

SBA Comments:

The CAIP Finance Committee delegated approval authority for SBA loans to a Loan Subcommittee in May 1998. The Subcommittee, with representatives from SBA, Treasury, and USDA, meets frequently by telephone conference. CAIP applications from field offices are evaluated and endorsed in a very timely manner. Turnaround time averages just over 2 days.

This arrangement is not cumbersome, and it results in a valuable control point in the SBA's member of the Subcommittee. Prior to vote, all applications are entered in a complex database, which among other things provides an instantaneous update of sources and uses of funds advanced to SBA for operating the CAIP. The database is the primary system of record for all SBA CAIP transactions. The database modules incorporate the reporting requirements of the Memorandum of Understanding between the SBA and Treasury as well as ad hoc requests for information from many sources.

It is also important to note that the Subcommittee does not second-guess the credit decisions made by SBA's field offices. It reviews the loan application for CAIP eligibility only, not whether the loan is credit-worthy. While there is no credit review, necessary time is taken to ensure integrity in CAIP eligibility determinations.

The Loan Subcommittee members directly participate in the development and interpretation of CAIP guidelines for Agency participation. This provides continuity and a unique checkpoint to ensure uniform application of the

See comment 3.

Ms. Susan S. Westin

Page 4

guidelines. We believe that delegating application of the guidelines to lenders and district offices would erode this uniformity.

- GAO Report, Page 19, 2nd paragraph and Page 20, 1st paragraph:

“There is no follow-up to monitor the actual number of jobs that the borrowing businesses had realized in the 24 months following the loan, although this estimate is a primary condition for qualifying for the CAIP loan guarantee.”

“Another consideration in CAIP’s jobs numbers is the question of the additionality – that is, would these jobs have been created or retained anyway in the absence of the program.”

SBA Comments:

The NADBank, Los Angeles Office, has developed a follow-up system to monitor the actual number of jobs that the borrowing businesses realize. They have, in fact, completed a follow-up review and the results of that review are available from the Los Angeles Office Director.

As used in the GAO draft report, the term “additionality” is used in the context of GAO’s assessment of program results. The report suggests that jobs created by borrowers who qualify for SBA 7(a) guarantees without CAIP assistance should not be considered in an assessment of program results. That logic seems to indicate that the GAO believes that CAIP funds should be directed to assist only high-risk borrowers who are unable to meet normal (collateral based) or SBA 7(a) (repayment ability based) qualifications.

The CAIP is intended to provide economic development assistance to NAFTA impacted communities. SBA believes that our standard loan programs that have low subsidy rates best serve communities, thus maximizing the leverage of CAIP funds to provide business capital to local businesses. We further believe that borrowers who can demonstrate that the cash flow from their business is sufficient to make the required loan payments are more likely to be successful in creating and maintaining jobs in the community. Most borrowers indicate that the savings from participation in the CAIP are reinvested directly into their businesses.

A loan program to achieve “additionality” by targeting borrowers whose businesses are unable meet the 7(a) requirement of loan repayment ability would have a substantially higher loss projection. That higher projection translates into a much higher subsidy rate that drastically reduces the leverage of CAIP funds resulting in less capital for economic development in the eligible community.

See comment 1.

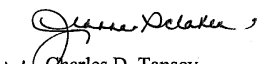
**Appendix IV
Comments From the Small Business
Administration**

Ms. Susan S. Westin

Page 5

Again, we appreciate the opportunity to provide these comments to you. If you or your staff have any questions about our comments, please feel free to contact Jeanne Selater, SBA's Deputy Associate Deputy Administrator for Capital Access, or Paul Bishop, SBA's Acting CAIP program manager, at (202) 205-6657.

Sincerely,


Charles D. Tansey
Associate Deputy Administrator for
Capital Access

Enclosure

The following are GAO's comments on the Small Business Administration's letter dated September 13, 2000.

GAO Comments

1. Our point was not to question whether these loan guarantees could have been made without CAIP. All borrowers clearly have to qualify for the 7(a) loan guarantee before they are considered for CAIP eligibility. Our point was to raise the question of what additional benefits or outcomes CAIP was bringing to the program. Outcome measures and a monitoring system are needed to demonstrate the benefits CAIP has brought to communities. In addition, it was not our intent and nowhere does the report indicate that CAIP loan guarantees should be targeted to higher-risk lenders.
2. As we stated in the text, the issue of job creation is a complex one. Our point was to note that in the larger economic context, a government financial assistance program such as CAIP is not likely to create net new jobs in the economy. Rather, programs such as CAIP can shift resources from one region or industry to another. This issue has been recognized by the Office of Management and Budget in its OMB Circular A-94, Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs (Oct. 1992), which instructs agencies to assume that resources in the economy are likely to be fully employed.
3. We revised the report to clarify the role of the Finance Committee in approving loan guarantees. We also modified our recommendation to focus on the need for greater delegation of decision-making authority for loans and grants.

Comments From the Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States
Department of
Agriculture

Rural Business-
Cooperative Service

Washington, DC
20250

SEP 12 2000

SUBJECT: Business and Industry Guaranteed Loan Program
Comments on GAO Draft Report, "Trade Adjustment
Assistance: Opportunities to Improve the Community
Adjustment and Investment Program"

TO: Leroy Jones
Acting Director
Financial Management Division

We have reviewed the subject General Accounting Office (GAO) draft report on the Community Adjustment and Investment Program (CAIP) and offer the following comments:

- **Page 3, 1st full sentence *et seq*:**
(and similar language: page 4, last paragraph;
page 7, last paragraph;
page 20, conclusions, 2nd paragraph)

"This requirement results in a duplicative approval process, as the [Finance] committee reviews applications for loan guarantees already found to have met its program eligibility standards, first by agency field officials and then by a subcommittee it established to scrutinize loan guarantee applications. . . . [this] has also added more time to the decision-making process . . . it is not clear that new staff will improve program management unless the Finance Committee is prepared to delegate decision-making authority."

USDA comments:

In the process of reviewing proposed loan guarantees submitted by lenders to field staff and subsequently to National Office staff and the loan approval subcommittee, only loans over \$5 million in loan amount since the onset of Fiscal Year (FY) 2000 - or which have some new, unique feature which has not previously had policy set by the Finance Committee - go to the full Finance Committee for approval. It was only before the Finance Committee had constituted the Loan Approval Subcommittee in early 1998 that all loans went all the way to the Finance Committee. Since that subcommittee was constituted, only a minimal number

See comment 1.

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Comments on GAO Draft Report, "Trade Adjustment Assistance:
Opportunities to improve the Community Adjustment and Investment Program"

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of loans have gone to the Finance Committee, basically just the three over \$5 million during FY 2000. Loans approved by the subcommittee are routinely reviewed by only the Chair of the Finance Committee, although the Finance Committee may review any or all loans, if it so chooses.

A major question is also implied here as to just what level of delegation is prudent to balance speed of approval against security of the investment of taxpayer funds. On this issue, we would like to make several points.

As the report points out later (page 18), the average Small Business Administration (SBA) loan is about \$300,000, while the average USDA loan is \$1.9 million. SBA does a huge number of loans each year in the 7(a) program, each of which is for a comparatively small amount, hence the need for a large number of loans and the heavy reliance on preferred lenders. However, U.S. Department of Agriculture (USDA)/CAIP loans have ranged up to \$10 million (and may be as large as \$25 million), and each is custom tailored to the exact circumstances. There is clearly the potential for increased risk of loss to the Government if sufficient due diligence is not exercised.

At each point in the approval process, which can take several months in our regular Business and Industry (B&I) Guaranteed and Direct Loan Program, potential loans are dropped from consideration. It is critical that the objectivity of higher levels of review - above the lenders and even field staff - be preserved. The objectivity and different perspectives brought by the subcommittee have assured that all aspects of these loans are considered. It is also true that, while USDA field staff is knowledgeable, they handle many programs in the field.

The scrutiny of staff in Washington, who are intimately familiar with all details of the program and the precedents set across the country, is still a necessary element. As USDA/CAIP loans take LESS time, from preapplication to issuance of a loan note guarantee, than do regular B&I loans, we do not believe the use of the subcommittee approval process has created any time delays. The minimal number of loans (three) sent to the Finance Committee have not imposed system-wide delays, as implied by the draft GAO report.

To the extent that USDA and SBA loans do overlap somewhat, especially with the newly included SBA 504 program, we want to assure that the prospective borrower and lender see a level playing field. It would not be reasonable to have "immediate lender approval" automatically meaning borrower approval for a SBA loan, while all USDA loans still go through higher levels of review. On balance, we believe subcommittee approval is fair and has been quite responsive to borrower needs.

Comments on GAO Draft Report, "Trade Adjustment Assistance:
Opportunities to improve the Community Adjustment and Investment Program"

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- **Page 4, 1st paragraph:**
(and similar wording on page 19, last 2 paragraphs;
and in Conclusions, page 20, 1st paragraph)

"... It is not clear to what extent the financing assistance has resulted in private sector employment and growth since the program does not have a monitoring system in place to measure program outcomes. Although program records indicate that businesses created or retained 9,208 jobs, this data is based on projections made by businesses when first applying for program financing and are not verified. Moreover, most of the bankers and business owners we interviewed said that the loan guarantees provided under the program in partnership with the Small Business Administration would still have been made without the program. In addition, ... federal financing programs that assist specific sectors or firms largely shift employment among sectors in the economy, rather than raise the overall level of employment."

USDA Comments:

There is, in fact, an *ad hoc* monitoring system operated by the CAIP-Los Angeles office, which had Interns from UCLA's North American Integration and Development Center conduct a written and telephone survey of the first group of approved USDA and SBA borrowers, subsequent to the borrowers having had several months to a year of operation after loan closing. The Los Angeles office should be able to provide a copy of their results. It was found that USDA borrowers had created - in less than 12 months - the bulk of jobs projected over 24 months. We anticipate the Los Angeles office will conduct a follow-up survey to trace the continued progress of these and subsequent loans. USDA, as only one participant in the CAIP program, believes that any systematic outcome tracking system should be consistent and use the same measures across all participating programs. It should be run out of either the CAIP Los Angeles office or the Department of the Treasury.

Although GAO specifically refers to SBA guarantees when stating that most loans would have been made anyway absent the CAIP, it is important to note that (1) this is NOT the case for the USDA loans, as the regular B&I program, with no test for other credit, is always oversubscribed, with waiting lists over 18 months in many states; and (2) while there have been more LOANS processed by SBA, the bulk of jobs created or saved and the largest part of CAIP loan guarantee amounts are made by USDA. Without clearly stating these facts, the clear implication of the GAO statement is that all of these loans would continue to be made, even if CAIP funding were discontinued. While USDA cannot say with absolute certainty that the specific loans approved under the CAIP would not have been made, it is clear that at least *other* loans would not have been made, due to the over subscription of all B&I resources.

See comment 2.

Comments on GAO Draft Report, "Trade Adjustment Assistance:
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See comment 3.

Federal financing programs clearly can shift development between different areas, and this was the intent of the Congress in passing authorizing legislation and providing funding for this program. Many of the borrowers financed through the USDA/CAIP program have had a choice of where to locate a new plant or whether to modernize a plant, close it, or move it out of the United States. The intent of this program was to counter the movement of jobs from the United States to Mexico or Canada - in areas already determined to have been adversely affected by NAFTA-related trade and with much less than full employment.

- To the extent this program manages to effect a shift in borrower actions by persuading them to locate a new plant in the United States, as opposed to in another country, this increases the net number of jobs in the United States.
- When this program allows a borrower to modernize a facility in the United States, instead of moving it offshore or closing it entirely in the face of competition, this keeps the number of jobs in the United States from decreasing. We can provide examples of CAIP loans where this was the case.
- If the CAIP program influences a borrower's decision to locate a facility in a high unemployment area, as opposed to a low unemployment area of the United States, this may shift a potential job from within one state to another. However, it also plays an important role in reducing inflationary pressures on the wage component of total production cost, with favorable implications for consumer prices and for the ability of United States manufacturers to compete with overseas producers. While many of the jobs created under USDA/CAIP have been high wage, even a moderate- or lower-wage job helps a wage earner support their family and avoid losing their home where jobs are scarce.

• **Page 5, Footnote:**

Members of the Finance Committee include "Agriculture's Deputy Under Secretary, Office of Rural, Economic and Community Development . . ."

USDA Comment:

See comment 4.

The correct organization is Rural Development, not "Rural, Economic and Community Development".

Comments on GAO Draft Report, "Trade Adjustment Assistance:
Opportunities to improve the Community Adjustment and Investment Program"

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- **Page 13, first paragraph:**

"... counties that become eligible for CAIP may not even be aware of the program unless notified by the Treasury."

USDA comment:

It is correct that the majority of counties become eligible through an automated process and do not apply for eligibility. However, this somewhat misstates the interaction between local governments and their development authorities on the one hand and the CAIP program on the other:

- A number of the sites designated under the program were included because of efforts by the local community development agencies to have their areas certified, working in close partnership with the Los Angeles office and the Finance Committee.
- At the beginning of the program and for an extended period (until the large number of counties were added in March 1999), Los Angeles staff, in conjunction with staff from both USDA and SBA, did roll-out meetings and issued press releases in almost all of the eligible areas. Where rural areas were involved, USDA field staff were in charge of inviting banks, potential borrowers, and community development representatives to participate. SBA field staff did the same for the urbanized areas. The practice of giving Members of Congress advance notice is to provide to them appropriate deference and due to the greater priority accorded their press releases by the local media than those of Federal agency field staffs.

- **Figure 4, following page 14:**

The figure shows total USDA/CAIP loans of \$6.5 million in FY 1997, \$86.6 million in FY 1998, \$38.2 million in FY 1999, and \$39.6 million in FY 2000 (to June 8, 2000).

USDA comment:

USDA staff are unaware of the source of these figures, which do not match our data (the data provided to GAO). Our data show \$0.9 million in FY 1997, \$66.6 million in FY 1998, and \$61.8 million in FY 1999. The FY 2000 figure, through June 8, 2000, appears correct.

See comment 5.

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- **Page 17, Last paragraph:**

"Not all of the eligible counties have actually participated in CAIP. . . . the top five states accounted for 66 percent of the total value of the financing. At the other end of the spectrum, eligible counties in Arizona, Illinois, Indiana, New Jersey, Oregon, Puerto Rico, and Wisconsin had not participated in the program."

USDA comment:

While USDA agrees that more promotion could be done in some areas than has been the case, it appears that the emphasis is misplaced. While no loans have been made in Arizona, Illinois, Oregon, and Puerto Rico, it is important to note that these counties became eligible only late in the process, in either 1999 or 2000. Oregon and Illinois each have only two counties, which makes a concerted promotional effort difficult. Wisconsin has had only one small rural area eligible (plus one urban area) in which there is much less emphasis on development than by other locales. Indiana did originate one USDA loan, but the borrower never followed through. Lastly, New Jersey has only urban sites, in which USDA may not originate loans.

Where USDA believes emphasis should be placed is on the ability of some states to effectively promote the program, which should serve as a model for other eligible areas and show that there is significantly greater potential for expansion of the program in those areas which have not heretofore made significant use of it. For example, USDA did a brief analysis in 1999 using FY 1998 data. In FY 1998, the USDA B&I Guaranteed Loan program, the vehicle by which USDA provides guaranteed loans for the CAIP, had a limitation of \$1 billion in total loans (program level) which it could provide to rural America. Of this amount, specific amounts were set aside for Empowerment Zones and Enterprise Communities, special initiatives funding, and cooperatives. Another amount was set aside as a National Office Reserve to fund high-value requests on a competitive basis, once states used up their funds and for emergency needs. The remaining funds were allocated among the states, according to a formula based on rural population, poverty, and other factors.

As USDA tries to pool funds which remain unused by some states, the Rural Business-Cooperative Service tries to address high priority needs which exceed state resources. However, \$1 billion goes only so far in a national program and was fully used. The CAIP funding allowed USDA to make \$66.6 million in extra loans in FY 1998.

While USDA cannot say with absolute certainty that most of the specific loans approved under the CAIP would not have been made, it is clear that at least *other* loans - funded with B&I funds not used by the CAIP loans - would not have been made. The following summary table shows the states which had originated CAIP loans and the percent added to their

Comments on GAO Draft Report, "Trade Adjustment Assistance:
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programs out of CAIP funds. This table shows that most of our participating states are among our most active in the regular program and why they come to CAIP. No comparable analysis was made for FY 1999.

States Originating CAIP Loans in FY 1998

<u>State</u>	<u>Added Percent by CAIP</u>	<u>State</u>	<u>Added Percent by CAIP</u>
AK	524	KY	0
AR	13	LA	190
CA	22	MI	6
CT	87	NM	5
FL	0	NC	1
GA	53	OH	15
ID	66	SC	0
IN	0	TN	6
KS	0		(Unweighted Average: 58)

- **Page 18, second paragraph:**

"USDA officials said that they did not pay the 2 percent guarantee fee with CAIP funds, rather they used all available CAIP funds to increase the pool of funds for loan guarantees."

USDA Comment:

There has been a consistent attempt to do this. However, as shown in the data provided to GAO, USDA has paid several full or partial guarantee fees where the fee has made the difference in the ability of the borrower to successfully comply with the loan terms.

- **Appendix I, Page 4, last paragraph:**

"Besides managing the direct loan program, the CAIP Los Angeles office has provided some technical assistance, outreach and monitoring."

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USDA Comment:

The description does not go nearly far enough to describe the assistance provided to USDA by the Los Angeles office. That office screens and builds cases for new eligible areas and represents the program in meetings with many development organizations around the country. They have been very pro-active in providing outreach assistance to USDA field staff, conducting outreach meetings and providing training to our field staff. USDA National Office staff consult with them on a daily basis on CAIP issues, and they provide a great deal of help to potential eligible areas in identifying information which would help them qualify for the program.


JAMES R. NEWBY
Acting Deputy Under Secretary
Policy and Planning

See comment 6.

The following are GAO's comments on the Department of Agriculture's letter dated September 12, 2000.

GAO Comments

1. We revised the report to clarify the role of the Finance Committee in approving loan guarantees. We also modified our recommendation to focus on the need for greater delegation of decision-making authority for loans and grants.
2. Our point was not to question whether these loan guarantees would have been made without CAIP, but rather to raise the question of what additional benefits or outcomes CAIP was bringing to the program. Outcome measures and a monitoring system are needed to demonstrate the benefits CAIP has brought to communities.
3. As we stated in the text, the issue of job creation is a complex one. Our point was to note that in the larger economic context, a government financial assistance program such as CAIP is not likely to create net new jobs in the economy. Rather, programs such as CAIP can shift resources from one region or industry to another. This issue has been recognized by the Office of Management and Budget in its OMB Circular A-94, Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs (Oct. 1992), which instructs agencies to assume that resources in the economy are likely to be fully employed.
4. We revised the name of the program in the text as suggested.
5. The data in figure 4, and throughout the report, are based on the calendar year and not the fiscal year. We have added a note to figure 4 indicating its basis in calendar year data.
6. These points are largely covered in both the letter and in greater detail in appendix I.

GAO Contacts and Staff Acknowledgments

GAO Contacts

Steve Lord (202) 512-4379
Leyla Kazaz (202) 512-9638

Acknowledgments

In addition to those listed above, Patricia Cazares-Chao, Phil Herr, Samantha Roberts, Rona Mendelsohn, Frederick J. Barrett, Matt Helm, and Franz Traxler made key contributions to this report.

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