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ECONOMIC DEVELOPMENT ADMINISTRATION

Midwest Flood Program: Opportunities Exist to Improve Management of Future Disaster Programs

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EXECUTIVE SUMMARY

On August 12, 1993, the Congress enacted the Emergency Supplemental Appropriations for Relief From the Major, Widespread Flooding in the Midwest Act of 1993 (Public Law 103-75). Public Law 103-75 provided $4.84 billion of assistance to victims of the Midwest floods and other disasters. The Congress distributed funds through programs of various federal agencies, including the Department of Commerce's Economic Development Administration, which received a $200 million appropriation to award disaster assistance grants for economic recovery of communities, industries, and firms adversely affected by the floods and other disasters. Public Law 103-75 required EDA to utilize the grant programs of the Public Works and Economic Development Act of 1965 (PWEDA), as amended.

Intense rainstorms in the summer of 1993 caused flooding in the upper Mississippi and lower Missouri river basins. The flooding caused significant damage in nine states -- Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wisconsin. The disaster resulted in a Presidential Disaster Declaration that included 487 counties in the nine states.

Heavy flood damage across the region left about 70,000 people homeless and millions of farm acres either inundated or too soggy to produce crops. The floods also damaged businesses and related public infrastructure, resulting in business disruptions, losses, and unemployment. Flood waters damaged or destroyed buildings, water and wastewater treatment facilities, roads, bridges, transmission and distribution lines, sewer lines, and water lines.

EDA implemented Public Law 103-75 through four types of grant programs, as shown below. EDA received 539 applications, totaling about $410.6 million, and awarded 287 grants for $192.3 million of the $200 million appropriation. (Note: EDA officials emphasize that this represented an approximate 50% increase over EDA's regular FY 1994 funding based, without any additional resources for personnel or other administrative costs.)

EDA Program	PWEDA Title	No. of Awards	Award Amount ($ in millions)
Technical Assistance	Title III	99	$8.1
Construction	Title I and IX	160	169.7
Revolving Loan Fund	Title IX	16	10.5
Levee Repair and Upgrade	Not Applicable	12	4.0
Total		287	$192.3

We found that all the grants awarded by EDA complied with Public Law 103-75 and that the great majority of them clearly mitigated the effects of the flood, utilized funds efficiently, served the legislative purpose, and were performed in a timely manner. However, our audit also identified opportunities for EDA to improve its management of future disaster programs. Our findings are summarized as follows:

Technical Assistance Program. To more adequately identify and assess disaster needs associated with the 1993 flood, EDA funded 99 "technical assistance" grants for a total of $8.1 million. These grants, generally awarded to state and local entities, generated most of the actual requests for EDA's assistance. We found EDA's use of these grants to plan for construction and revolving loan fund grants to be a sound approach. However, it appeared that some of the projects identified and proposed by the technical assistance grantees were not necessarily related to recovery from the flood damage. This raised questions as to whether all the technical assistance recipients had a clear understanding of EDA's priorities for mitigating the economic devastation associated with the flood (see page 3).

While encouraging EDA to pursue a similar approach in future disaster assistance efforts, we recommend that the Assistant Secretary for Economic Development provide technical assistance grant recipients with guidelines to better identify and prioritize projects for EDA disaster funding.

In follow-up discussions, the Assistant Secretary has advised us that he will continue actions begun in 1997 as necessary to provide technical assistance grantees with improved guidelines for identifying and prioritizing proposals related to future disaster projects.

Construction Program. The construction programs under PWEDA did not have clear project development criteria for applying the programs to disasters. While it was readily apparent to us that the vast majority of the 160 projects funded at $169.7 million helped mitigate the economic damage caused by the disaster or will prevent future flood damage, it was not apparent for others. In these instances we questioned whether the construction grants awarded were, in fact, *priority* projects that would best assist flood victims. Moreover, we found that slow progress on some construction projects may place the funding in jeopardy and raises questions as to whether the projects were, in fact, a priority (see page 4).

EDA has been, and will continue to be, involved in the federal efforts to help with disaster relief and assistance. Hence, we recommend that the Assistant Secretary for Economic Development develop construction program guidelines that will assist both the applicants and decision makers in their efforts to identify and give appropriate consideration to projects that have the greatest potential to mitigate the effects of the particular disaster.

In response to our draft report and in subsequent discussions, EDA brought to our attention new guidance developed in 1997 which focused on many of these issues. After careful review of EDA's response and subsequent discussions, we have, where appropriate, modified our report but have reaffirmed our recommendation that EDA strengthen its guidelines in this area.

Revolving Loan Fund Program. EDA awarded 16 grants, totaling nearly $10.5 million, to 14 recipients under the RLF program. We note that these 16 grants will remain in place long after the disaster-related needs cease to exist and that funds from the grants then will be reused for *non-flood* purposes, rather than returned to the U.S. Treasury (see page 8). We also questioned whether two specific RLF funds represented the best use of funds since they were loaned for purposes not related to economic dislocation caused by the flood (see page 9). Also, we found that five of the grants were ineffective because by the time awards could be implemented, the grant recipients could not find any disaster-affected businesses to borrow the RLF funds (see page 10).

We recommend that the Assistant Secretary for Economic Development (1) develop RLF program criteria to provide timely financial aid to businesses impacted by disasters only until the need no longer exists, (2) consider using existing RLFs for disaster relief via temporary grant revisions, and (3) deobligate $773,000 of undisbursed RLF grant funds (see pages 10-11). If EDA deobligates the funds, $773,000 will be put to better use (see page 11).

EDA generally agreed that the nature of RLFs warrants additional consideration when awarding such assistance for disaster response and mitigation. Moreover, EDA officials advise that they have already instituted formal policy and procedural changes to address many of these special issues that arise with disaster-related RLFs. EDA also agreed that some flood RLFs require corrective action, including possible termination, and that it already is, or will be, pursuing such actions in the normal course of events.

Levee Repair and Upgrade Program. The Federal Interagency Task Force on Midwestern Flood Recovery required EDA to participate in a levee program. Although EDA implemented the levee program, it awarded just 12 grants, totaling approximately $4 million, only 22 percent of the $18 million allocated by the Task Force. EDA's difficulties in awarding the funds allotted for levees were not the result of deficiencies in EDA program management, but instead appear to be the result of questionable Task Force strategy to shift responsibility from agencies with experience in levee repairs to an agency with no such experience. EDA processed 108 levee grant applications but found only 12 eligible applicants--an effort that was not the most effective use of EDA's limited resources (see page 12).

We do not have a recommendation to the Assistant Secretary for Economic Development, as this situation was outside of EDA's control.

EDA stated that it is unaware of any provision within PWEDA that would restrict the construction or repair of levees by EDA. Consequently, EDA believes that the special levee criteria it developed should be viewed as an appropriate mechanism for the implementation of federal levee policy within the authority of PWEDA, rather than an effort to create an otherwise unauthorized and questionable new program.

We agree with EDA's comments and have made appropriate revisions to the final report, which no longer questions EDA's authority to construct or repair levees. However, we still believe the delegation of the levee program to EDA raises questions as to whether this resulted in an efficient use of EDA's limited resources.

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We have made appropriate revisions in other areas of the report where warranted. EDA's written comments on our draft audit report are provided as Appendix III; the attachments to those comments are available upon request.

INTRODUCTION

On August 12, 1993, the Congress enacted the Emergency Supplemental Appropriations for Relief From the Major, Widespread Flooding in the Midwest Act of 1993 (Public Law 103-75). Public Law 103-75 provided $4.84 billion to federal agencies to assist victims of the Midwest floods and other disasters, including $200 million to Commerce's Economic Development Administration to assist in the economic recovery of communities, industries, and firms adversely affected by the flood and other disasters, pursuant to the Public Works and Economic Development Act of 1965 (PWEDA), as amended (Public Law 89-136; 42 U.S.C. 3121).

Intense rainstorms in the summer of 1993 caused flooding in the upper Mississippi and lower Missouri river basins. By late June, flood storage reservoirs were at or near capacity and soils throughout the area were saturated. High river levels breached or overtopped more than 1,000 levees and significantly damaged others. Runoff from already saturated land turned fields into lakes and small streams into rivers. Heavy flood damage across the region left about 70,000 people homeless and millions of farm acres either inundated or too soggy to produce crops.

Floods damaged businesses and related public infrastructures, resulting in business disruptions, losses, and unemployment. Flood waters exerted a powerful force that damaged or destroyed buildings, water and wastewater treatment facilities, roads, bridges, transmission and distribution lines, sewer lines, and water lines. The flooding caused significant damage in nine states -- Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wisconsin. The disaster resulted in a Presidential Disaster Declaration that included 487 counties in nine states (including all 99 counties in Iowa).

As directed by Public Law 103-75, EDA used its existing grant programs to implement the flood assistance program. The grant programs included (1) planning and technical assistance grants, (2) public works and infrastructure grants, and (3) revolving loan funds. EDA was later required to revise its program to include the repair and upgrade of levees.

In August 1993, EDA initiated its disaster recovery program by offering technical assistance (TA) grants under Title III of PWEDA for staffing and full administrative support for planning and coordination efforts. EDA designed the TA grants to address specific economic develop-ment problems, which included hiring "disaster coordinators." Other TA strategy grants were used to determine the actions necessary to reestablish economic stability in the flood areas. Typical funding for initial awards ranged from $50,000 to $75,000, with a grant period of from 12 to 18 months.

After completing the technical assistance process, EDA evaluated grant applications for construction grant projects under Titles I and IX of PWEDA, and revolving loan fund (RLF) grants under Title IX, to implement plans developed through the TA grants. Construction grants were proposed for building public facilities, industrial parks, industrial access roads, and water and sewer facilities. RLF grants were proposed to aid businesses in obtaining needed capital.

In December 1993, based on direction from the Federal Interagency Task Force on Midwestern Flood Recovery,[1] EDA amended its disaster relief program to include repair and improvement of levees. EDA allotted $18 million for levee repair and upgrading. In carrying out the levee portion of its flood program, EDA collaborated with the U.S. Army Corps of Engineers to ensure that levee repairs met Corps criteria. Levees would then be eligible for future participation in the Corps' program of emergency levee repairs under the Levee Rehabilitation Assistance Program (Public Law 84-99). Since EDA does not have a levee program under PWEDA, it classified levee projects as Title IX grants.

EDA received 539 applications for flood disaster grants, totaling about $410.6 million. EDA awarded 287 grants for about $192.3 million, including $8.1 million for 99 technical assistance grants, $169.7 million for 160 construction grants, $10.5 million for 16 RLF grants, and $4 million for 12 levee grants (see Appendix I). EDA processed grant applications in its Chicago and Denver Regional Offices. EDA did not expand its staff to manage this large effort since Public Law 103-75 did not appropriate funds for that purpose.

Purpose and Scope of Audit

The purpose of our audit was to determine whether the numerous and diverse projects awarded with emergency flood act funding (1) complied with the stated purpose of the Act, (2) were funded efficiently and served the legislative purpose, and (3) were performed in a timely manner to correct dislocations caused by the disaster.

We performed a preliminary review of project files at the two EDA regional offices to select projects for field review. We judgmentally sampled grants awarded with flood act funds, expanding our sample where needed to ensure the reliability of results. We also reviewed unfunded grants to determine the project purpose, type, description, amount, and reason for rejection or withdrawal; however, we did not determine the eligibility of unfunded grants. During July through September 1996, we visited 53 grant recipients in eight states to determine the status of the projects and review the justifications for the grants. After assessing the results of our initial selection, we expanded our review to include a total of 199 grants, or 69 percent of the total awards, to improve the reliability of our audit results. We reviewed how grant recipients justified project eligibility and recovery needs, and determined the status of grantee performance. We also interviewed EDA program officials to determine the agency's policies and procedures for program implementation.

We reviewed EDA's compliance with Public Law 103-75, PWEDA (P.L. 89-136), and other applicable regulations. We did not perform a review of the general and application controls of EDA's computer generated program data. We did perform tests that indicated the data was reliable.

Our review was conducted in accordance with generally accepted government auditing standards, and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

[1] The Task Force was established by the Administration to coordinate the Midwest Flood relief efforts and was headed jointly by the Secretary of Agriculture and the Director of the Federal Emergency Management Agency.

FINDINGS AND RECOMMENDATIONS

We found that (1) all the grants awarded by EDA complied with Public Law 103-75 and (2) that the great majority of them mitigated the effects of the flood, utilized funds efficiently, served the legislative purpose, and were performed in a timely manner. However, our audit also identified opportunities for EDA to improve its management of future disaster programs.

I. TECHNICAL ASSISTANCE GRANT PROGRAM

A. Improved Guidelines Needed

To adequately assess disaster needs and the award of construction and RLF grants, EDA funded 99 technical assistance grants for a total of $8,139,315. These grants, generally awarded to state and local entities, generated most of the actual requests for EDA assistance. EDA required technical assistance grantees to prepare (1) an area damage assessment, (2) an economic recovery strategy for the area, and (3) recommendations of specific projects to help the area recover from the impact of the disaster. EDA's policy required that a recognized planning process provide the basis for awarding implementation grants (including construction and revolving loan fund grants).

We reviewed 34 technical assistance project grant files. We found EDA's use of technical assistance grants to plan for construction and RLF grants to be a sound approach. However, while the technical assistance process was a good approach for planning for the use of EDA disaster funds, some grant recipients proposed construction and RLF projects not related to the effects of the disaster. During our audit and afterwards, we discussed with EDA officials whether specific projects served the intended economic recovery purpose. In some instances, EDA officials could convincingly show the merits of the projects. In other instances, they could not. To minimize such uncertainties, there is a need for EDA to provide more specific guidelines to planners for assessing economic disaster damage and justifying proposed projects.

In one case, we found EDA awarded a $175,000 grant to a foundation located in Des Moines, Iowa, to do a feasibility study regarding the establishment of the World Food and Agriculture Capitol, and to address the worldwide demand for agricultural products through better use of resources and technology. This TA project had *nothing* to do with the flood or recovery from the flood. EDA regional officials were reportedly directed by headquarters to fund the project using the rationalization that Des Moines was hard hit by the flood and that the project would help the city's long-term recovery from the effects of the flood.

B. Recommendation

We recommend that the Assistant Secretary for Economic Development provide technical assistance grant recipients with more specific guidelines to better identify possible projects for EDA disaster funding.

C. EDA's Comments

In follow-up discussions, the Assistant Secretary has advised us that he will continue actions begun in 1997 to provide technical assistance grantees with improved guidelines for identifying and prioritizing proposals related to future disaster projects.

II. CONSTRUCTION PROGRAM

EDA assisted flood-impacted areas by using its construction program authority authorized in Title I and Title IX of PWEDA to provide long-term economic relief and alleviate economic distress. Using the funds appropriated under Public Law 103-75, EDA awarded 160 construction grants in the amount of almost $169.7 million consisting of 24 Title I grants totaling $30,917,479, and 136 Title IX grants totaling $138,796,765 (see Appendix I).

PWEDA enables EDA to provide grants for public works and development facilities to alleviate unemployment and underemployment. EDA's regular Title I program of PWEDA, *Grants for Public Works and Development Facilities,* provides for grants in redevelopment areas that suffer poor economic conditions, including persistent unemployment above the national average, loss of population, low median family income, distressed Indian lands, sudden rises in unemployment, long-term economic deterioration, and special programs and laws.

EDA's regular Title IX program of PWEDA, *Special Economic Development and Adjustment Assistance,* provides special economic development and adjustment assistance grants to help state and local areas meet special needs arising from actual or threatened severe unemployment caused by economic dislocation. Title IX enables EDA to award grants directly to an eligible recipient in an area that the Assistant Secretary for Economic Development has determined to have a special economic development need.

We reviewed 139 of the 160 construction grants. It was readily apparent to us that 116 of the 139 projects aided recipients to recover from the effects of the flood, or prevented future flood damage and the related economic impact. However, EDA's program criteria in 1994 and 1995 did not provide clear direction that projects be awarded based on correcting the economic and physical effects of the disaster or mitigating the economic impact of future disasters.

As a result, some construction grants appeared unrelated to the damage or the economic impact caused by the flood. We also noted two grants that were not used to aid flood victims as proposed. Finally, the apparent slow progress of some projects may place those projects in jeopardy.

A. <u>Some Grants Not Directly Disaster Related</u>

While Public Law 103-75 provided funds for relief from the flood, EDA awarded 21 construction grants for long-term economic development in areas impacted by the flood even though there was no evidence that the flood disaster caused a long-term economic dislocation in the areas being aided. EDA justified the projects on the basis that they promoted future economic growth or created jobs in a disaster area. Often, increases in unemployment caused by the disaster had subsided by the time the prospective grantee had submitted its grant application. Sometimes, EDA used the disaster to justify funding projects which could have been funded with EDA's regular appropriation. We therefore questioned whether EDA's use of emergency flood funds for general economic development purposes where there was no long-term economic dislocation caused by the disaster represented the best use of scarce disaster funds. The scarcity of the resources is evidenced by FEMA's September 1993 notification to the Special Assistant to the President that the amount of funds appropriated to all federal agencies to aid victims was not sufficient to make all victims whole.

Two examples illustrating our concerns are presented below.

Polk County, Iowa (Grant Nos. 05-19-61099, 05-19-61101, and 05-19-61102 -- $1,770,900)

EDA awarded three grants for construction of new sewage lines and other improvements. The three areas in the county receiving these grants were not economically or physically damaged by the 1993 flood. The county did not provide evidence of business closures, layoffs, or significantly damaged infrastructure caused by the disaster. The justification for the grants was to provide new infrastructure to encourage future economic growth in the declared disaster area.

Economic statistics indicate that the area had no economic dislocation. The unemployment rate of Polk County dropped from about 3.8 percent before the flood (second and third quarters of 1992), to an average of 3.6 percent during the 1993 flood months (second and third quarters of 1993).

By the fourth quarter of 1993, the unemployment rate averaged 2.8 percent. The national average unemployment rate during the flood months was 6.8 percent, about three percentage points above the county's rate during the same period. The national unemployment rate for 1993, 1994, and 1995 exceeded Polk County's rate by a minimum of two percentage points.

Imperial, Nebraska (Grant No. 05-01-61187 -- $1,001,690)

EDA awarded this grant to reconstruct an unmanned airstrip that serves as the municipal airport. The airstrip suffered damage to its only runway due to a series of heavy rains, which left a pool of water flowing across the runway. A design defect caused the water pooling. The airport closed for two days. The two-day closure did not dramatically affect flights at the airport or impact the economy. Activities at the airport include two aerial spray operations, nine private doctors who fly in and out periodically, a medivac, and flights of private citizens. FEMA informed EDA that airport repair was usually eligible for funds under the authority of the Federal Aviation Administration. Imperial officials told us that they did not apply to FAA for financial aid because they would have to wait several years for funding.

EDA funded the project to encourage future economic growth. Imperial suffered no significant economic dislocation from the two-day closure of the airstrip. A lack of dislocation is indicated by local unemployment rates in Chase County where Imperial is located.

Chase County did not experience a significant increase in the unemployment rate or have a higher rate than the national average during the flood. The county's unemployment rate for the flood months was 2.2 percent, well below the national rate of 6.8 percent. The rate for the same period in 1992 was 2.1 percent.

B. Two Grants Will Not Benefit Flood Victims

EDA awarded two construction grants totaling $3,574,778 for public infrastructures with the intent of aiding specific flood impacted businesses. We found that these grants, as proposed and awarded, would have been appropriate uses of funds under the Act. However, the grant recipients will not be using the facilities to help the intended flood impacted businesses.

EDA awarded Grant No. 05-19-61129 to St. Louis County, Missouri, for $2,887,500, to construct a commercial and retail incubator, which would allow flooded businesses to remain in the community. The incubator would also provide opportunities to attract new businesses to the community. The county has not yet constructed the project. At the time of our visit in September 1996, the businesses that were flooded, which the project was to have helped, either had moved or were in the process of moving from the area. Despite the project's appropriate intent, this project apparently will not aid the flooded businesses.

EDA awarded Grant No. 05-19-61155 to the City of Grafton, North Dakota, for $687,278, to provide infrastructures to an 80-acre portion of an industrial park. The purpose of the grant was to construct a new industrial park to enable the city's eighth largest employer, which had been flooded, to relocate from the flood plain, and allow the company to expand its operations. The company did not move into the new park when it was completed, and remained in its old location and bought a building to expand, thereby negating the reason for the grant. Thus, this project will not achieve the grant intent of helping this business.

Neither of the grant awards placed conditions or requirements that the businesses impacted by the flood actually had to move into the projects. Delays in construction of the incubator and changed plans of one flood-impacted project beneficiary prevented the use of these projects to provide the planned benefit to disaster-impacted businesses. EDA approved these grant awards, in part, on the basis that they would help flood victims; however, the outcome of the projects failed to meet the intent. As a result, almost $3.6 million of flood funds will not have the promised benefit to flood impacted businesses.

C. Slow Progress on Some Projects May Place Funding in Jeopardy

Since EDA's ability to disburse the obligated disaster funds expires on September 30, 2000, EDA construction grants not completed by that date could lose their funding, placing the projects in jeopardy. As of May 27, 1998, 12 of 160 construction grants, totaling $8,503,240, had less than 10 percent of the grant funds disbursed. To their credit, EDA officials have been diligent in following established policies to prevent premature and inappropriate disbursements on projects that have impediments and generally have done a good job in monitoring progress toward the completion of flood-related construction grants. However, the flood program grants, as with all EDA regular program funds, have a strict statutory limit on how long funds will be available for disbursement.

D. Recommendations

We recommend that the Assistant Secretary for Economic Development:

(1) develop construction program guidelines that will assist both the applicants and decision makers in their efforts to identify and give appropriate consideration to projects that have the greatest potential to correct specific economic dislocations caused by disaster or to prevent future economic dislocations caused by disasters,

(2) place, as appropriate, specific requirements in grants to ensure they are used for the intended purpose when a grantee represents that the project will be used to aid specific disaster-impacted businesses, and

(3) closely monitor uncompleted projects awarded under the Act, to ensure that the projects will be completed by the grant deadline; otherwise, EDA may have to terminate projects for cause.

E. EDA's Comments

EDA stated that the OIG did not understand EDA's philosophy, policy, and regulations related to disaster programs, and claimed that the grants initially questioned in the draft report were generally associated with the disaster or mitigated future disasters. In particular, EDA's policy (published in EDA's notices of fund availability) states that "in the case of a Presidentially declared natural disaster, the area disability criteria are waived." Therefore, an area is not required to demonstrate high unemployment rates, low per-capita income, or any other of the area eligibility criteria associated with EDA grant assistance. EDA also stated that the draft audit report discussion of delayed projects implied that projects were not urgently implemented or even needed.

F. OIG Comments

After careful review and consideration of EDA's comments, including explanations that responded to the specific grants questioned in the draft audit report, we no longer question some of the grants cited, while continuing to question others. In questioning whether certain construction grants were the most efficient use of resources, we used unemployment rate data as a general criteria *only* where the project or a portion of the project did not provide for (1) correcting the economic dislocation and damage caused by the flood or (2) preventing future disaster-caused economic dislocations. Given the scarce funding that is usually available, we believe that economic conditions should be considered by EDA when determining the priority of future disaster assistance projects.

With respect to delayed construction projects, we did not imply that EDA is not working diligently to reduce delays. Rather, we are advising that the delays will potentially cause the loss of funding due to strict statutory limits on how long funds will be available, placing the projects in jeopardy.

III. REVOLVING LOAN FUND PROGRAM

On October 19, 1993, EDA announced in the Federal Register that eligible grant recipients could apply for revolving loan fund grants to aid in the recovery from the effects of the flood. EDA awarded 16 revolving loan fund grants, totaling $10,471,340, to 14 recipients under Title IX of PWEDA.

EDA Title IX RLF grants do not have a completion date as do most other grants, and the assets of the grant consist of cash and loans receivable, which are used continuously for program purposes. EDA's Title IX grants provide for assistance to mitigate sudden and severe economic dislocations (SSED), unemployment caused by plant and base closings, long-term economic deterioration (LTED), or long-term loss of employment and wages in high unemployment areas. The RLFs provide loans to encourage local business expansions and help create jobs in qualifying areas.

Four of the 14 RLF grant recipients had previous EDA RLF grants. When we asked grantee officials why they did not use their existing RLFs for the flood disaster, they told us the existing funds in these RLFs were not available to flood victims because of excessively restrictive loan eligibility requirements, and the original RLF did not contain a disaster clause that would allow the EDA requirements to be waived for emergency situations.

Most of the RLFs awarded to make loans to businesses financially impacted by the floods helped businesses survive the financial impact of the flood. However, the flood RLFs awarded were excessive in scope since they provided for reuse of the funds for non-disaster related purposes after the disaster-related need no longer existed. In addition, two RLF grants resulted in an inefficient use of funds since they were used in areas which did not have long-term disaster-related economic dislocations. Finally, we believe five RLF grants were not awarded quickly enough for effective use.

A. Grants Excessive in Scope

The 16 RLF grants went beyond the intent of Public Law 103-75, because loan repayments can be reused for non-flood purposes after the need for flood relief is over. The grants allow the $10.5 million of disaster funds to be used as if they are part of EDA's normal Title IX RLF program.

EDA's Title IX RLF program, under which the flood RLF grants were awarded, provides for the continuing use of RLFs, as opposed to the return of funds to the U.S. Treasury after the specific need for the funds is over. As a result, the entire funding of $10.5 million for RLFs could eventually be used for purposes beyond disaster relief, a questionable use of the flood disaster appropriated funds under Public Law 103-75.

B. Two Grants Were a Questionable Use of Funds

EDA awarded two RLF grants that were questionable because of the apparent lack of long-term flood-caused economic damage. EDA allowed the flood disaster area to be the prime criterion for grant awards, as opposed to the economic dislocation caused by the disaster. As a result, some grant recipients made loans for purposes not related to the flood-caused economic dislocation.

In brief, project funds earmarked to aid area recovery from the flood disaster did not appear to have consistently been used as intended by Public Law 103-75, and therefore represented a questionable use of emergency appropriations. Two examples are shown below.

Nebraska Economic Development Corporation (Grant No. 05-19-61289)

On March 27, 1995, EDA awarded an RLF grant to the Nebraska Economic Development Corporation for $600,000, with a $200,000 matching share requirement. At the time of our visit in late July 1996, the recipient had awarded only one loan for $205,000, which was a portion of a much larger plant expansion financing that had been planned well before the flood. The recipient made the loan to a pet food manufacturer in eastern Nebraska specializing in foods for exotic animals. The borrower claimed that a temporary work stoppage caused by water line breaks and higher material costs damaged its operation in 1993. However, the borrower's loan application shows 1993 (the flood year) as the borrower's first profitable year after years of losses.

We were unable to determine how the grant was related to significant economic dislocation caused by the flood. During 1993, unemployment in the borrower's county ranged from 2.2 to 3.0 percent, well below the national average. The flood appears to have merely created a pretext to use the RLF program as a funding source for the company's long-term plant expansion. In addition, with only one loan made through July 1996 (three years after the flood), we question the need for this RLF grant.

Mid Iowa Development Fund (Grant No. 05-19-61290)

On March 27, 1995, EDA awarded an RLF grant administered by the Mid Iowa Development Fund. At the time of our visit in late August 1996, the recipient had not awarded any loans, and had only one loan in process. We found no evidence that the potential borrower suffered economic dislocation as a result of the flood.

During 1993, unemployment in the borrower's county ranged from 2.7 to 3.6 percent, well below the national average. Based on the lack of economic dislocation caused by the flood, and the availability of only one flood-impacted borrower at the time of our review, we do not believe the EDA funds were used to recover from the effects of the flood disaster. In addition, with only one loan as of August 1996, we question the need for flood loans in this area.

C. Five Grants Not Timely Awarded for Effective Use

Our review revealed that the earlier the RLF grants were awarded, the more successful the grant recipients were in lending funds for disaster mitigation. On the other hand, the later the RLF grants were awarded, the less successful the grant recipients were in lending funds. As of May 27, 1998, about five years after the disaster appropriation, $773,000 of the $10.47 million had not been disbursed by RLF grant recipients (see Appendix II).

EDA did not have an RLF policy ready for immediate implementation for an emergency program with special criteria for grant awards based on losses caused by the disaster. Also, the administrative requirements of EDA's regular RLF program hampered the ability of grant recipients to award loans. Several of the grant recipients told us that it took about six months after they received an EDA grant to be in a position to make loans. The EDA program required them to establish a loan board, hire staff, advertise the program, and screen loan requests.

EDA's RLF program and grant application procedures are geared toward long-term economic development, not immediate emergency aid. The lack of a preexisting EDA emergency RLF grant program hampered the effectiveness of grant recipients to make loans to businesses damaged by disasters. An example of slow disbursement is presented below.

Mississippi River Regional Planning Commission (Grant Numbers 06-19-61092, 06-19-61093, 06-19-61094)

EDA awarded three RLF grants in February 1995, each for $340,000, to the Mississippi River Regional Planning Commission. At the time of our site visit in August 1996, the recipient had made only a $200,000 loan to a borrower that manufactures and sells boats. The borrower claimed economic damage because of the flood. During 1993, unemployment in the borrower's county ranged from 3.9 to 5.1 percent, well below the national average.

As of December 10, 1997, four and one-half years after the flood, the grants remain only partially disbursed with over one-third undisbursed. We question the emergency need for the loan funds based on the recipient's inability to immediately utilize the loan funds for flood-impacted businesses.

D. Recommendations

We recommend that the Assistant Secretary for Economic Development:

(1) develop an RLF program to provide timely aid to businesses impacted by future disasters only until the need no longer exists,

(2) consider using existing RLFs for disaster relief via temporary grant revisions, and

(3) deobligate $773,000 of undisbursed RLF grant funds.

E. Funds to Be Put to Better Use

If EDA deobligates the undisbursed RLF grant funds, $773,000 will be put to better use.

F. EDA's Comments

EDA stated that it was in general agreement with us that the nature of RLFs warrants additional considerations when awarding such assistance for disaster response and mitigation. EDA also advised that in 1997, it had issued formal policy and procedural changes to address the special issues that arise with disaster-related RLFs. EDA also agreed that some flood RLFs require corrective action, including possible termination, and that it already is, or will be pursuing, such actions in the normal course of events.

G. OIG Comments

EDA's comments demonstrates its willingness and ability to respond to its program in order to correct the weaknesses of using RLFs for disaster response mitigation. Establishing policies and procedures for use of the RLFs for disaster response mitigation is a positive step in correcting the weaknesses of using the RLF program for disasters.

IV. FLOOD LEVEE PROGRAM

A. EDA's Task Was Difficult

In November 1993, the Midwest Flood Recovery Interagency Task Force announced that $18 million of additional flood relief funds would be available for levee repair from EDA. The announcement indicated that if a levee is otherwise ineligible for federal assistance, and it protects critical public infrastructures, it could be eligible for assistance through EDA. Accordingly, EDA announced its program in the December 29, 1993, Federal Register.

EDA received 108 grant applications for levee repair and upgrade totaling more than $70 million, but awarded only 12 grants for less than $4 million. EDA officials told us that it was difficult to find projects that qualified for EDA funding under the levee program. We do not believe EDA's inability to award all the funds allotted for levees was the result of deficiencies in EDA program management, but the consequence of questionable Task Force strategy.

In December 1993, based on direction from the Federal Interagency Task Force on Midwestern Flood Recovery, EDA amended its disaster relief program to include levee repairs. The reason for the Task Force requirements appears to be that many breached and damaged levees were not included under the Corps of Engineers program because of non-compliance with Public Law 84-99, which requires levees to meet public law standards of construction, management, and maintenance before the Corps would repair them under its program. Therefore, in order to find a different source of funding, and to provide a waiver (because of the disaster) from requirements of Public Law 84-99, the Task Force *required* EDA to provide funding for noncomplying levee projects.

Requiring EDA to utilize flood money to repair noncomplying levees to Corps standards was a questionable strategy. PWEDA does not provide a program with specific criteria for levee repair. EDA officials had to form internal criteria for what essentially was a new program to EDA. EDA officials told us that they found very few applications that complied with EDA criteria for awarding an economic development-related project. We found EDA criteria for levee projects reasonable.

We question the appropriateness of shifting responsibility from agencies with experience in levee repairs to an agency with no experience in such repairs. Processing 108 grant applications, but finding only 12 eligible applicants, required an effort that was not the most effective use of EDA's limited resources.

We do not have a recommendation to the Assistant Secretary for Economic Development, as this situation was created outside EDA's control.

A. EDA's Comments

EDA stated that it is unaware of any provision within PWEDA that would restrict the construction or repair of levees by EDA. Consequently, EDA further stated that its special levee criteria should be viewed as an appropriate mechanism for the implementation of federal levee policy within the authority of PWEDA.

B. OIG Comments

We agree with EDA's comments; however, we still believe the delegation of the levee program to EDA resulted in an inefficient use of EDA's resources.

EDA Grant Applications and Awards
Public Law 103-75

TYPE OF GRANT	GRANT APPLICATIONS NO.	GRANT APPLICATIONS AMOUNT ($ in Thousands)	GRANT AWARDS NO.	GRANT AWARDS AMOUNT ($ in Thousands)
Technical Assistance:	102	8,370	99	8,140
Construction:				
Title I	126	$135,014	24	$ 30,917
Title IX	182	183,232	136	138,797
Subtotal	308	$318,246	160	$169,714
Revolving Loan Funds:	21	13,534	16	10,471
Levee:	108	70,433	12	3,996
Total	539	$410,583	287	$192,321

Schedule of Undisbursed RLF Grant Funds
As of May 27, 1998

Grant No.	Grant Recipient	Grant Amount	Disbursed Amount	Undisbursed Amount
05-19-61290	MID-IA DEV Fund Inc.	$ 600,000	$ 579,254	$ 20,746
06-19-61084	Valmeyer Village	400,000	-0-	400,000
06-19-61092	Mississippi River RPC	340,000	309,254	30,746
06-19-61093	Mississippi River RPC	340,000	146,703	193,297
06-19-61094	Mississippi River RPC	340,000	211,633	128,367
		$2,020,000	$1,246,844	$773,156

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20230

MEMORANDUM TO: Johnnie E. Frazier
Acting Inspector General

FROM: Phillip A. Singerman Phillip A. Singerman
Assistant Secretary for Economic Development

SUBJECT: Midwest Flood Program: Opportunities Exist to Improve Management of Future Disaster Programs
Final Audit Report No. DEN-8722-8-0001
September, 1998

Thank you for the opportunity to review the Draft Audit Report. We greatly appreciate the effort that you and your staff have made in reviewing EDA's 1993 Midwest Flood Program. We particularly welcome the OIG's recognition that all of the awards - 287 grants providing $192,300,000 - complied with Public Law 103-75 and that "EDA has been, and will continue to be, involved in the federal efforts to help with disaster relief and assistance".

As we have discussed, EDA is in general agreement with the suggestions and recommendations that you made regarding strengthened guidelines, and had already taken measures to implement many of them. Attached is a July 8, 1997 memorandum which provided new and detailed construction grant and revolving loan fund guidance to our regional offices responding to the Upper Midwest Floods Disaster of 1997. Please note that EDA recognized many of the same issues that you identified in your report, and has developed new formal policies that address specific recommendations. The "Implementation Plan for Upper Midwest/Ohio River Floods Disaster Recovery Assistance" delineates organizational responsibilities, area eligibility, explicit project selection criteria, processing procedures, and the strategy for recovery assistance. The "Policy Guidance for EDA Disaster-Related Revolving Loan Funds" describes extenuating circumstances under which EDA may modify policies to provide more effective and efficient assistance to communities struggling to recover from natural disasters.

EDA is continuing to update and further expand its formal disaster program guidance. In addition to EDA's discussions with the OIG, this continuing effort has built upon the observations, comments and suggestions outlined in the disaster program reviews of Hurricane Andrew (March, 1996) and the Midwest Flood of 1993 (April, 1998) that were commissioned by EDA and independently conducted by Aguirre International (attached).

Please extend my appreciation to all of your staff who participated in this stimulating exchange of ideas and perspectives, and for their thought-provoking evaluation of EDA's activities.

Attachments

UNITED STATES DEPARTMENT OF COMMERCE
Economic Development Administration
Washington, D.C. 20230

July 8, 1997

MEMORANDUM FOR: Regional Directors

John D. Woodward
C. Robert Sawyer
William J. Day, Jr.
John E. Corrigan
Pedro R. Garza

From: Chester J. Straub, Jr.
Deputy Assistant Secretary
for Program Operations

Subject: Post-Disaster Economic Recovery
Upper Midwest Floods and Other Disasters

This memorandum also provides guidance to facilitate overall agency efforts in disaster program delivery and transmits the attached agency Implementation Plan to expedite delivery of EDA's $50.2 million disaster recovery program from emergency supplemental appropriations under Public Law 105-18 for the upper midwest floods and other natural disasters.

ALLOCATIONS

The EDA disaster program allocations below were approved by the AS/ED and will guide program delivery in your region.

Upper Midwest Floods		
	North Dakota	$13,200,000
	South Dakota	$5,000,000
	Minnesota	$8,000,000
	Sub Total	$26,200,000
Ohio Valley:	Kentucky	$15,000,000
	Ohio	2,000,000
	Illinois	1,000,000
	Indiana	1,000,000
	Tennessee	1,000,000
	West Virginia	3,000,000
	Sub Total	$23,000,000
Arkansas Tornados:	Arkansas	$1,000,000
	Program Sub Total	$50,200,000
	S&E	$2,000,000
	Total Amount	$52,200,000

Given the high expectations for potential EDA post-disaster assistance in many of the disaster affected areas, we must anticipate strong reactions regarding allocations once the reality of the modest appropriation is confirmed. Should any additional funds become available, as a part of a hurricane disaster supplemental or supplement to EDA's FY 1998 annual appropriations, EDA may be able to meet more of the affected areas' expectations.

TIMING OF DELIVERY

EDA is now expediting the implementation of our post-disaster recovery effort (subsequent to the $52.2M disaster supplemental appropriation for EDA) as noted in the actions below.

- Final clearances are in process to publish a notice of availability of funds in the Federal Register within ten days.

- EDA Headquarters will conduct scoping meetings with Headquarters and DRO/CRO Regional and field staff in Chicago on July 9, 1997, to coordinate communication and seamless program delivery. Special emphasis will be given to the areas affected by the Upper Midwest Floods in North Dakota, South Dakota and Minnesota. A similar scoping meeting with ATRO Regional and field staff is presently scheduled in Atlanta on July 22, 1997.

- Initially, EDA has targeted the supplemental funds to non-infrastructure needs for RLF grants to promote business recovery. EDA has identified a number of projects and has already invited seven RLF applications and will move forward to process these projects expeditiously.

DISASTER RLF GRANTS

EDA is making a concerted effort to develop the agency's revolving loan fund grant into a useful program tool for disaster assistance as a more flexible source of local "gap" financing to promote business recovery in disaster-impacted areas. Adapting the existing "traditional" RLF program tool for this purpose requires consideration of a few program modifications to accomplish this task which the Assistant Secretary has approved as addressed in a separate Disaster RLF attachment. The local disaster RLF grant can address many unmet local needs for "gap" financing to help communities and businesses in stimulating economic recovery. Therefore, it will be important that the Regions have flexibility in developing and processing RLF grants and the grantees have the needed flexibility in operating their "gap" lending programs.

OPERATIONAL ISSUES

EDA will implement the delivery of the disaster recovery program in accordance with EDA's post-disaster economic recovery plan including cordination of program delivery within a region and between regions. In this regard, a joint meeting is scheduled for July 9.1997, in Chicago for Headquarters, DRO and CRO to coordinate Upper Midwest Flood recovery efforts. A joint meeting is also scheduled for Tuesday, July 22, 1997, in Atlanta with the ATRO to address disaster program delivery in Kentucky, Tennessee, and review progress in North Carolina and South Carolina.

- Expedited Processing - In accordance with the Assistant Secretary's May 22, 1997, approval for expedited processing, EDA Regional Offices are implementing the procedure to send out a project invitation letter to the disaster grantee applicant at the same time that the project brief is sent to Headquarters policy group with a 15 day window to resolve any deficiencies. The seven RLF applications from upper midwest applicants expected in the next two weeks were the first group of projects processed in this manner.

- Eligibility - Eligibility for EDA disaster recovery assistance is based upon the Presidential disaster declaration of an area impacted by a natural disaster and is evidenced by a FEMA designation of a county as eligible for FEMA public assistance as authorized by FEMA' enabling legislation, the Stafford Act. The Regional Office may obtain the current FEMA designation information through (1) internet through FEMA homepage at www-fema.gov, (2) phone call to FEMA Disaster Declarations Office at 202/646-3606 or (3) by EDR direct contact with the FEMA/DFO.

ADMINISTRATIVE ISSUES

To meet the EDA requirements for disaster program delivery and project management, we anticipate that EDA will immediately require $1.2 million of the $2.0 million appropriated for overtime, temporary positions, travel and administrative expenses. The Assistant Secretary has approved that the $1.2 million be made available for these purposes as further detailed below.

- Overtime Authorized - To deliver the program with existing staff resources, however, will require EDA staff to work longer hours and travel extensively for prolonged periods to staff field offices and service our customers locally. Use of overtime for disaster assistance operations will be instrumental in supporting EDA's disaster assistance response.

- Temporary Positions Authorized - The Assistant Secretary has authorized six temporary staff positions for Program Specialists (GS-12/13: $60K including 7% benefits [estimate provided by Budget office] x 6 positions = $360K/yr. x 3 yrs. = $1,080,000) for up to three year appointments to meet an acute and absolutely critical need for post-approval project management to operate the current disaster assistance program and resolve unmet needs from earlier disaster program assistance as noted below.

  1. Denver - One Program Specialist position (GS-12/13: $60K x 3 yrs. = $180,000) for immediate Regional Office support as current staff is deployed to North Dakota and South Dakota for pre-approval program activities with transitioning responsibilities for post-approval project management accordingly.

  2. Chicago - Two Program Specialist positions (GS-12/13: $120K x 3 yrs. = $360,000) for immediate Regional Office support as current staff is deployed to Minnesota, Ohio, Indiana, and Illinois for pre-approval program activities. In addition to the transitioning post-approval project management of the current disaster recovery program, these temporary positions will augment Regional Office efforts to complete EDA program management associated with the earlier Midwest Floods program effort.

  3. Atlanta - Three Program Specialist positions (GS-12/13: $180K x 3 yrs. = $540,000) for immediate Regional Office support as current staff is deployed to (1) Kentucky and Tennessee for Ohio River Valley Flood response and (2) continues Hurricane Fran disaster program activity in North Carolina and South Carolina. In FY 1997 alone, this region will have over $30 million in disaster program allocations and already has critical needs to augment post-approval management support for its existing Hurricane Andrew and Tropical Storm Alberto project portfolios.

The Assistant Secretary has delegated authority to the Regional Directors for recruitment for these positions immediately. This action will also support EDA in the event of future EDA disaster program activity including the current Hurricane season.

- Disaster Administrative Budgets - To facilitate the administrative operation of EDA's disaster recovery program, the Assistant Secretary has approved the establishment of a headquarters and regional disaster administrative budget to manage program expenses for travel, overtime and other expenses associated with disaster program activity. Initial Disaster Administrative Budget allocations through FY 1998 are below.

DRO:	$50,000
CRO:	$20,000
ATRO:	$20,000
PRO:	$20,000
Headquarters:	$10,000

  Expenses will be monitored quarterly and adjustments can be considered accordingly. The remaining $800,000 unallocated funds (from the $2.0M S&E) will be held in a Headquarters reserve, an allocated by the Deputy Assistant Secretary for Program Operations on an as needed basis.

- Administrative and Program Codes - The following list of codes are to used for funds expended from appropriations under Public Law 105-18 for the 1997 Upper Midwest Floods/Ohio River Valley Floods and other disasters:

  Project Code: xx/xx/59xxx

  Program Acc. Code for ED-735:97/59/xxxx/as appropriate

  Admin. Accounting Code: 97/98811/8731/000/21xx

  Special Initiative Code: XM

Attachments

Implementation Plan
Disaster RLF Policy Guidance

ATTACHMENT

POLICY GUIDANCE FOR EDA DISASTER-RELATED REVOLVING LOAN FUNDS

July, 1997

In cases where EDA proposes to award revolving loan fund (RLF) assistance to communities struggling to recover from natural disasters, existing Agency policies may set standards that are difficult or impossible to meet. In such extenuating circumstances, EDA may grant relief with respect to certain policies as set forth below:

(1) **MATCHING SHARE** - EDA's prevailing policies regarding the non-Federal matching share for RLFs customarily require award recipients to provide or arrange for 25% of the project cost in cash, all of which is to be used to make first-round loans, i.e., not to be used to pay administrative or other costs, except for audits where specified by the budget. However, to assist disaster RLF applicants in meeting matching share requirements:

(a) **EDA may reduce the customary 25% match to such matching share percentages as may be established for other Federal assistance being provided in specific response to the disaster, provided that at least a 10% matching share shall be required.**

In most cases, in setting EDA grant rates for its disaster assistance, EDA will follow the lead of the Federal Emergency Management Agency (FEMA) in establishing grant rates for FEMA's own emergency assistance. For example, it is possible that FEMA might establish different rates for different states or communities affected by the same disaster, in which case, allowable EDA grant rates might similarly vary.

(b) **EDA may permit RLF award recipients to use their matching (cash) funds to make loans _or_ to pay for otherwise eligible RLF administrative expenses.**

Although EDA regulations do not permit in-kind match for RLFs, a disaster-RLF applicant could use its cash match to pay for necessary and allowable administrative expenses.

(c) **In the most extreme cases of applicant financial hardship, regional directors may recommend 100% EDA-RLF grants (a complete waiver of the non-Federal share) to the HQ-Policy Group. Please note that in light of the flexibility permitted by (a) and (b), above, such requests must be well justified in the project brief.**

EDA may choose to apply the above requirements in combination with the existing 25% cash match requirement. For instance, EDA may allow a 25% cash match to support the administration of an RLF. In applying the matching share policy, please note that the underlying policy of EDA is to obtain the maximum practicable non-Federal share, depending on the extent of matching resources that may be available to an applicant. In any event the structure of the non-Federal share should be clearly indicated on the project brief. Regional directors may exercise discretion within the above limitations in accordance with existing delegated authority.

(2) **USING RLF INCOME FOR MATCHING SHARE**

RLF income may be used in the following manner to recover the cash matching share from a project and use the funds to match other grants.

An EDA RLF award recipient, may, with prior written EDA approval, use RLF income to replace the non-Federal share of the project. As the non-Federal share is replaced, the award recipient may remove such funds from the RLF/project and, at the recipient's discretion, may use such removed funds for any purpose. Once the non-Federal share of the project has been replaced in its entirety, any further amounts of RLF income must be used by the recipient in accordance with the requirements and guidelines otherwise prescribed in EDA's Standard Terms and Conditions (RLF) and RLF Administrative Manual.

In the case of multi-element Title IX projects that contain RLFs, the RLF income may be used to replace the non-Federal share of the total project.

RLF Income is defined as interest earned on outstanding loan principal, interest earned on accounts holding RLF funds not needed for immediate lending, all loan fees and loan-related charges received from RLF borrowers, and other income generated from RLF operations [RLF income does not include the receipt of principal on loans].

New RLF Grant Awards - EDA prior written approval may be in the form of a special condition to the grant award.

Existing RLF Grant Awards - Grant Recipients may request to use RLF income to replace the non-Federal share. EDA's prior written approval may be in the form of a letter amendment to the grant award.

Delegation of Authority - Regional Directors are delegated the authority to approve the use of RLF income to replace the non-Federal share of an RLF project.

(3) **USING RLFs to ASSIST BUSINESSES THAT RELOCATE**

It is EDA's policy that its assistance should not be used to relocate businesses. However, in the circumstances of coping with natural disaster, some businesses may choose to move to new locations irrespective of the prospect of EDA assistance, such as occurred recently in the aftermath of the floods in the upper-Midwest. To make clear the scope and effect of EDA's nonrelocation policy, disaster RLFs should include a special condition that restricts EDA assistance to the nonrelocation exceptions cited at 13 CFR 316.4 and prohibits RLF recipients from using EDA funds to recruit businesses into their area. In the case of the upper-Midwest flood disaster, for which the Emergency Supplemental Appropriation was enacted on June 12, 1997, the above special condition, to further remove subjective interpretation of the Nonrelocation regulations, should state that any business relocating to another area ***after*** such date, and not otherwise meeting an exception under 13 CFR 316.4, is not eligible to receive EDA-RLF assistance.

(4) **RLF ADMINISTRATIVE POLICIES**

The following policies are articulated in various formats throughout EDA's RLF Administrative Manual. In most cases, they are reflected in the RLF Plans developed and submitted by RLF applicants for EDA approval. In approving these Plans, EDA regional directors presently hold the authority to grant case-by-case waivers. However, since the anticipated need for waivers is likely to be common with many disaster RLFs, it is appropriate to specify blanket policy waivers for disaster RLFs.

Therefore, to maximize the RLF program flexibility in response to future disasters, EDA will permit selected modifications in the structure and requirements for disaster RLF grants as follows:

(a) The 2:1 private leverage requirement may be modified or waived;

(b) Borrower eligibility may be broadly interpreted, and borrowers contributing to the economic recovery, including borrowers seeking micro-loans, need not prove direct economic injury resulting from the disaster. However, so as not to duplicate the assistance available form SBA, any borrower potentially eligible for SBA's disaster loan program must first apply to SBA. A referral by SBA or a bank turndown letter is sufficient;

(c) The requirement that working capital loans cannot exceed 50% of the total RLF capital prior to the full disbursement of grant funds may be modified or waived;

(d) The general prohibition of refinancing existing debt may be waived for RLF disaster loans, provided that such refinancing is for the purpose of adjusting repayment terms in favor of the borrower, and not for the purpose of relieving existing lenders of risk associated with their loans; and

(e) By special condition to the Disaster RLF award, EDA may permit the recipient, upon a written request to EDA and with EDA's subsequent written consent, to convert unutilized RLF capital, subsequently determined to be unneeded for further lending related to the disaster response/recovery, to infrastructure, or other types of eligible EDA projects, subject to any restrictions of the original appropriation.

In applying this provision, EDA should require that at least the first round of lending be successfully completed and that the RLF recipient provide an assessment demonstrating that opportunities for continued relending for disaster recovery purposes have been exhausted.

(f) The restriction that public or quasi-public organizations are not eligible borrowers (with certain exceptions) may be waived. In addition, an RLF may be structured to provide loans for public infrastructure to such entities. Such infrastructure projects must be clearly related to the disaster by (1) responding to effects of the disaster, (2) mitigating potential negative impacts from future disasters or (3) otherwise be in accordance with the longer-term disaster recovery strategy.

Note: EDA HQ-Economic Adjustment Division is developing a modified version of the RLF Administrative Manual that would serve the purposes of such an infrastructure RLF.

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Attachment

IMPLEMENTATION PLAN FOR UPPER MIDWEST/OHIO RIVER FLOODS DISASTER RECOVERY ASSISTANCE PURSUANT TO PUBLIC LAW 105-18

BACKGROUND: Public Law 105-18 the 1997 Emergency Supplemental Appropriations Act For Recovery From Natural Disasters And For Overseas Peacekeeping Efforts, Including Those in Bosnia, provided $52.2 million ($2M S&E) to remain available until expended for the EDA's post-disaster recovery programs for affected areas from the consequences of the Upper Midwest Floods, Ohio River Valley Floods and other natural disasters. Major areas affected were in the states of North Dakota, South Dakota, Minnesota, West Virginia, Ohio, Indiana, Illinois, Kentucky, Tennessee, and Arkansas (tornados). Natural disasters constitute a significant economic dislocation event for affected communities. While the Economic Development Administration (EDA) is not an emergency relief agency, the Agency responds to those events by providing assistance to state and local governments and non-profit corporations for post-disaster economic recovery. EDA's role is to help communities strategically rebuild their economies; therefore project development and funding are based on local economic adjustment needs.

EDA offers a variety of programs to assist state and local areas meet special economic adjustment needs arising from sudden and severe economic dislocations caused by natural disasters. Specific programs include planning and strategy grants; technical assistance grants to address specific adjustment problems and hire disaster recovery specialists to provide operational assistance to help affected areas mitigate the affects of the disaster; revolving loan fund grants to provide gap financing to small businesses; and infrastructure grants for the construction, improvement, or expansion of critical public facilities that are not-authorized under other Federal disaster recovery programs.

Program Management

The EDA DAS for Program Operations will have headquarters responsibility for overall disaster recovery response including (1) interagency coordination pursuant to the Federal Response Plan and related support functions, (2) development of the Agency implementation plan guiding disaster program response (area eligibility, project selection criteria, and recovery strategy), and (3) coordination and communication with the relevant Regional Offices for an effective disaster response. The headquarters point-of-contact for this implementation plan is the Disaster Recovery Coordinator.

The EDA Denver, Chicago, Austin, Atlanta, and Philadelphia Regional Directors have delegated authority and responsibility for all disaster recovery program delivery in the Regional Office and in the field including (1) assessment of economic impact, project development, processing, and grant awards, (2) interagency field coordination with other Federal agencies, and (3) liaison with affected states and local communities. The Economic Development Representative (EDR) will be the primary local EDA contact to work with affected communities.

Area Eligibility for Assistance

Areas eligible for disaster recovery assistance include those areas determined to be disaster impacted pursuant to a Presidential Declaration of a Major Disaster and other areas that are experiencing actual or threatened economic dislocation because of other disasters.

Project Selection Criteria

The following project selection criteria have been developed for flood recovery projects:

1. The project must be consistent with the Economic Adjustment Strategy, the Overall Economic Development Program for the Area, or the State Emergency Recovery Plan.

2. Priority will be given to projects which leverage EDA funds with appropriate state, local, private, and other Federal assistance efforts.

3. Special consideration will be given to projects that enhance/stimulate sustainable economic development.

4. The restoration of critical infrastructure and public facilities which respond to emergency needs and are essential to economic activity and commerce will be a priority.

5. Special consideration will be given to projects that involve the relocation of businesses and individuals outside the 100-year flood plain area.

6. Consideration will be given to projects which upgrade critical infrastructure/public facilities to current building, environmental, and safety standards or codes and that are essential to stabilizing the economic base of the disaster area.

7. Priority consideration will be given to projects in areas with high levels of economic distress.

8. Given the limited funds available from this appropriation, the amount requested shall be relative to the amount of damage sustained by the

community. Applicants must be able to demonstrate need based on physical or economic damage resulting from the disaster.

Project Development

1. Project proposals from eligible applicants located within the disaster-affected areas will be received and evaluated by EDA's Economic Development Representative (EDR), Field Office Team (as appropriate), and the Regional Office staff. Proposals addressing post-disaster economic recovery shall be consistent with and preferably an outgrowth of the recovery strategy developed in response to the economic dislocation caused by the disaster. Given the limited funds available from this appropriation, the scale of the requested funding should reflect the relative amount of economic dislocation being experienced in the community. Proposals that directly address an economic dislocation problem by providing job opportunities for displaced workers will be given special consideration.

2. Form ED- 900P, without attachments, shall be substituted for the project brief. The Form ED-900P and request for application shall be prepared by the applicant in coordination and cooperation with the EDA Regional Processing Team. Interested parties should contact the EDR or the appropriate EDA Regional Office for a proposal package.

3. The Form ED-900P will also be used for Interagency Coordination. The Form ED-900P will be shared with other Federal agencies at the local and state level at regularly scheduled coordination meetings. This process will avoid duplication of funding efforts and will assure the maximum and efficient utilization of Federal funds.

4. After Interagency Coordination has taken place and the Regional Office's Project Review Committee has made a favorable project recommendation, the Regional Office may notify the prospective grantee in writing to invite submission of a formal project application. At the same time the notice of invitation is sent, the Regional Office shall send the Form ED900P to Headquarters for expedited policy review with the understanding that the Regional Director shall have fifteen days in which to resolve any issues arising from Headquarters comments regarding the proposal.

Strategy for Recovery Assistance

1. Provide funds to hire Community/State recovery staff and award economic recovery planning grants. EDA supplemental appropriations under Public Law 105-18 are targeted for revolving loan fund, infrastructure and construction activity and do not address funding for other EDA disaster

program tools, i.e. planning/technical assistance. In FY 1997, EDA did award supplemental planning grants from EDAP funds in response to the Upper Midwest Floods and the Ohio River Valley Floods for the hiring of Economic Recovery Coordinators in North Dakota, South Dakota, Minnesota, and Kentucky. These grants were awarded quickly to existing EDA grantees and other eligible applicants. This EDA assistance will help to evaluate the longer-term economic effects of the disaster on the affected communities, and to plan a long-term strategy for economic recovery, including the identification of specific projects critical to implementing the strategy. Strategies should be built upon existing capacity, i.e., the OEDP or other existing economic development process in place.

a. Strategies must be comprehensive in nature and should include many of the following elements: a full assessment of damages; a listing of specific projects in priority order; gaps in funding should be identified; possible "boom and bust" cycle issues that may arise in some areas; relationship to other disaster mitigation measure being undertaken; recommendations to assist in lessening future threat of flooding; evaluation of potentials for and constraints to economic development that were created by the disaster; identification of all possible mitigation resources.

b. Strategies should include both short-term and long-term components. It is preferred that the short-term plan should be completed 60 days after FEMA issues the Disaster Survey Report (DSR) for the state or 90 days after the grant has been approved if the DSR has already been issued. The long-term component would be given an additional 60 days for development. This plan should outline the economic recovery strategy for the area and would reflect change through the planning process.

2. Identify emergency infrastructure needs. EDRs will conduct an assessment of emergency needs that are not covered, either partially or fully, by other Federal and state programs and identify potential activities for EDA consideration.

3. Award emergency infrastructure replacement grants. EDA will consider projects that are needed to finance the replacement of critical public facilities and infrastructure and/or that are necessary for health of area residents or necessary to facilitate business recovery. Grants for such needs may complement but must not duplicate FEMA's mission of restoring flood-damaged public facilities to pre-flood condition/capacity.

4. Award implementation grants. EDA will consider projects that implement post-disaster economic recovery strategies. This assistance is typically anywhere from three months to a year from the date of an emergency declaration or event, depending on the availability of funds, the strategy process and the nature of the event. Current project awards under this supplemental appropriation will be for revolving loan fund and construction implementation activity.

Special Implementation Considerations

For the purposes of this implementation plan, consideration of awards for technical assistance or additional planning grants, which may be needs identified in the short term, will be suspended from funding under Public Law 105-18 appropriations.

In addition to the real property requirements at 13 CFR 314.7, applicants will be expected to submit satisfactory evidence of rights of entry assuring prompt access to project property at time of award in those cases where applicants do not hold title to all real property required for the projects at time of application.

07/08/97