

GAO

Report to the Chairman, Committee on  
Indian Affairs, U.S. Senate

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September 2004

# INDIAN ECONOMIC DEVELOPMENT

## Relationship to EDA Grants and Self-determination Contracting Is Mixed



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# Highlights

Highlights of [GAO-04-847](#), a report to the Chairman, Committee on Indian Affairs, U.S. Senate

## Why GAO Did This Study

American Indians and Alaska Natives generally face worse economic conditions than the rest of the U.S. population. The Economic Development Administration (EDA) within the Department of Commerce provides grants to distressed communities, including to American Indian tribes and Alaska Native entities, to generate employment and stimulate economic growth. Because data on how these EDA grants helped tribes was not publicly available, GAO analyzed all EDA grants made to Indian tribes from 1993-2002 and determined what economic development resulted. Tribes also enter into self-governance and other contracting arrangements with two federal agencies—the Bureau of Indian Affairs (BIA) and the Indian Health Service—to assume the management of individual services, including law enforcement, education, social services, and road maintenance. GAO also analyzed the relationship between changes in tribes' economic profile and the extent to which they had self-governance or contracting arrangements to perform their own services. BIA and EDA provided comments on a draft of this report. BIA generally agreed with GAO's conclusions. EDA took issue with GAO's characterization of the relative success of EDA grant programs.

[www.gao.gov/cgi-bin/getrpt?GAO-04-847](http://www.gao.gov/cgi-bin/getrpt?GAO-04-847).

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

## INDIAN ECONOMIC DEVELOPMENT

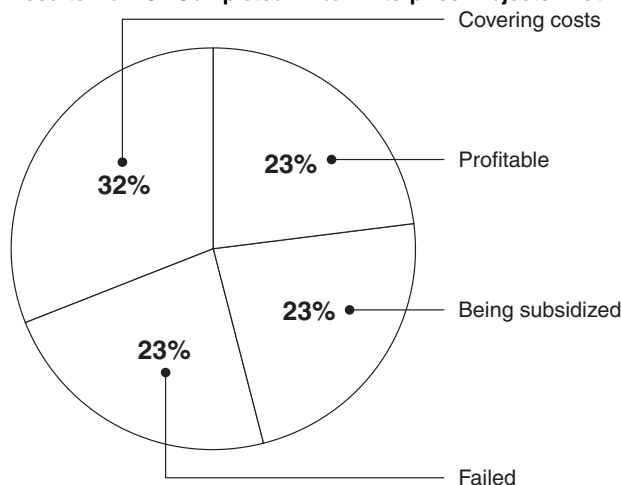
### Relationship to EDA Grants and Self-determination Contracting Is Mixed

#### What GAO Found

Indian tribes have used EDA grants to create businesses, build roads and other infrastructure, and create economic development plans, but these grants have had mixed success in generating jobs, income, and private sector investment. From 1993 to 2002, 143 Indian tribes and tribal organizations received \$112 million in EDA grants, but this represented a small portion of EDA's awards to all organizations. Of the total amount awarded to Indian tribes or Alaska Native entities, \$54 million was used to fund 63 enterprise projects designed to create income and jobs. Of the 59 projects GAO collected data on, 25 had not yet begun operating, and 3 others had just been completed and no results were available. Of the 31 operational projects, tribal officials reported that about half were profitable or were covering their costs, and the remainder were being subsidized or had failed. Most had resulted in the creation of 10 or fewer jobs, and few had attracted private sector investment. EDA also provided \$22 million in grants to tribes for infrastructure projects, such as roads and sewer systems, \$30 million in grants to assist tribes with economic planning, and \$5 million for loan funds and business development.

Almost all of the 219 federally recognized tribes with available data had entered into either contracts or self-governance compacts to operate their own tribal programs and services. Based on GAO's analysis of U.S. Census Bureau data, tribes that had self-governance arrangements or were engaging in higher levels of contracting showed greater gains on average in employment levels from 1990 to 2000 compared with tribes that were contracting less. However, the change in per capita income or the percentage of tribal individuals with incomes above poverty levels over this period was not statistically different for self-governance or high-contracting tribes compared with low-contracting tribes.

#### Results from 31 Completed Tribal Enterprise Projects That EDA Funded



Source: GAO analysis of data from survey of tribal officials.

Note: Percentages do not add to 100% due to rounding.

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# Contents

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## Letter

Results in Brief	1
Background	4
EDA Grants Have Provided Some Benefits to Tribes, but Overall Success in Producing Economic Development Has Been Mixed	6
Tribes Contracting to Operate More of their Own Programs and Services Generally Experienced Greater Employment Gains but Not Greater Income Growth Than Other Tribes	11
Observations	34
Agency Comments and Our Evaluation	46
	47

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## Appendixes

<b>Appendix I: Scope and Methodology</b>	50
<b>Appendix II: Additional Information on EDA Grants to Tribes</b>	57
<b>Appendix III: Additional Information on Relationship between Contracting and Tribes' Economic Profiles</b>	75
<b>Appendix IV: Comments from Department of Commerce</b>	79
GAO Comments	83
<b>Appendix V: Comments from the Department of the Interior</b>	84
<b>Appendix VI: GAO Contacts and Staff Acknowledgments</b>	85
GAO Contacts	85
Staff Acknowledgments	85

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## Tables

Table 1: Purposes of EDA Grant Programs	8
Table 2: GAO Criteria for Classifying Tribes by Extent of Contracting	53
Table 3: GAO Categories for Tribes by Level of GTI	54
Table 4: EDA Grants to Tribes Ranked by Per Capita Amounts, by State, Over 10-Year Period, 1993-2002	61
Table 5: Economic Development-Related Grants to Tribes in the Lower 48 States with Available Single Audit Act Data, by Agency, 1998-2001	67
Table 6: EDA Grants Supporting Indian Revolving Loan Funds, 1993-2002	71
Table 7: Benefits of Completed EDA-Funded Infrastructure Projects, 1993-2002	71

Table 8: Change in Economic Indicators for Self-governance High-Contracting and Low-Contracting Tribes, 1990-2000	76
Table 9: Change in Economic Indicators of Tribes by Grants-to-Income Ratio Categories, 1990-2000	77

## Figures

Figure 1: Total EDA Grants Appropriations and EDA Grant Dollars to Indian Tribes and Organizations, 1993-2002	12
Figure 2: EDA Grants Received by Indian Tribes and Organizations, 1993-2002	14
Figure 3: Per Capita EDA Grants to Tribes, 1993-2002	15
Figure 4: Proportion of Total EDA Grant Funding to Indian Tribes and Organizations by Grant Type, 1993-2002	17
Figure 5: Number of Tribes Receiving EDA Grants by Type of Grant, 1993-2002	18
Figure 6: Types of Enterprise Projects Funded, 1993-2002	19
Figure 7: Example of Horticulture Enterprise EDA Funded	20
Figure 8: Status of Completed Enterprise Projects Funded by EDA, 1993 to 2002	21
Figure 9: EDA-Funded Cultural Center	22
Figure 10: Other Funding Sources for EDA-Funded Enterprise Projects	23
Figure 11: Number of Jobs Created by EDA-Funded Enterprise Projects, 1993-2002	24
Figure 12: Resort Cabins That EDA Funding Has Supported	28
Figure 13: Marina and Breakwater Constructed with EDA Grant Funds	30
Figure 14: Benefits from Completed EDA-Funded Infrastructure Projects, 1993-2002	31
Figure 15: Percentage of Planning Grant Recipient Tribes Receiving Other Economic Development-Related Grants	33
Figure 16: Median Change in Percentage Employed, Per Capita Income Level, and Percentage Above Poverty from 1990-2000	36
Figure 17: Percentage of Tribes with Positive Growth on Economic Indicators by Contracting Category, 1990-2000	37
Figure 18: Percentage Change in Economic Indicators for Tribes by Grants-to-Income Ratio Category, 1990 to 2000	39
Figure 19: Comparing Economic Indicators for Self-governance/ High-Contracting Tribes by Grants-to-Income Ratio Category	40

---

Figure 20: Shortfalls in Contrast Support Funding for BIA and Indian Health Service, Fiscal Years 1993-2002	42
Figure 21: Median Percentage Changes in Economic Indicators for Tribes by Level of Gaming Revenues	46
Figure 22: EDA Grants to Tribes and Organizations by Region, 1993-2002, as Percentage of Total EDA Grants to Tribes and Organizations	58
Figure 23: Percentage of EDA Grants to Tribes in the Lower 48 States, 1993-2002, by State	59
Figure 24: Number of Federally Recognized Tribes with EDA Grants, by State and EDA Region	60
Figure 25: Total EDA Grants to Tribes and Tribal Organizations, 1993-2002, by EDA Region	62
Figure 26: Per Capita EDA Grants to Tribes in Lower 48 States, 1993-2002, by EDA Region	63
Figure 27: Extent to Which Tribes Receive EDA Planning Grants by Regions, 1993-2002	64
Figure 28: Percentage of Economic Development-Related Grants Received by Tribes from Various Federal Agencies, 1998-2001	66
Figure 29: Benefits of Completed EDA-Funded Enterprises, 1993-2002	69
Figure 30: Outcome of Enterprise Projects Funded by EDA, 1993-2002	70
Figure 31: Percentage of Self-governance, High-Contracting, and Low-Contracting Tribes by Grants-to-Income Ratio	78

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**Abbreviations**

BIA	Bureau of Indian Affairs
Census	U.S. Census Bureau
CFDA	Catalog of Federal Domestic Assistance
Commerce	Department of Commerce
EDA	Economic Development Administration
GTI	grants-to-income
RLFs	revolving loan funds

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

September 8, 2004

The Honorable Ben Nighthorse Campbell  
Chairman, Committee on Indian Affairs  
United States Senate

Dear Chairman Campbell:

Creating employment and raising incomes is a key priority for Indian and Alaska Native communities, and we have previously reported that over 100 federal programs were potentially available to assist tribes or tribal members with economic development activities.<sup>1</sup> One agency providing such aid is the Economic Development Administration (EDA) within the Department of Commerce (Commerce), which provides grants to distressed communities to generate new and retain existing jobs and to stimulate economic growth in areas of the nation experiencing high unemployment, low income, or severe economic distress, including American Indian tribes and tribal consortia.<sup>2</sup> Annually, EDA awards between \$200 and \$400 million in total grants, but public information on the extent to which EDA grants are assisting tribes was not readily available. In addition to financial assistance from federal agencies, Congress has also attempted to help tribes assume management of their own affairs. Since 1975, the Indian Self-Determination and Education Assistance Act has authorized tribes to assume the management of programs that had been administered on their behalf by the two federal agencies that provide services to tribes—the Department of the Interior’s Bureau of Indian Affairs (BIA) and Health and Human Service’s Indian Health Service. As a result, tribes can enter into contracts with these agencies to assume management of individual services, including law enforcement, education, social services, and road maintenance. Under self-governance compacts, tribes can receive lump sum funding to assume many of the services that were previously provided federally. Proponents of contracting and self-governance expect that the experience, expertise, and control that these arrangements provide should also help these tribes develop economically.

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<sup>1</sup>GAO, *Economic Development: Federal Assistance Programs for American Indians and Alaska*, [GAO-02-193](#) (Washington, D.C.: Dec. 21, 2001).

<sup>2</sup>For simplicity, references to tribes in this report generally includes American Indian tribes or tribal consortia and Alaska Native villages or entities unless otherwise noted.

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To assess the success of these efforts, you asked us to review EDA grants, as well as contracting and self-governance arrangements. In response, we analyzed (1) all EDA grants made to Indian tribes from 1993-2002 and determined what economic development resulted and (2) the relationship between changes in the economic profile of tribes and the extent to which they have entered into self-determination contracts or self-governance compacts to perform their own services under the Indian Self-Determination and Education Assistance Act, as amended. We also identified other advantages and disadvantages to these arrangements and other factors that can affect changes in tribes' economic profiles.

To determine the results of the EDA grants to tribes, we obtained data on all EDA grants made to tribes from 1993-2002. Over this period, EDA provided grants to 125 of the 562 federally recognized tribes and also to 18 tribal or Alaska Native organizations. For our analysis, we classified EDA's grants by type of project funded, including projects for

- producing income (enterprise projects), such as saw mills;
- business development, including training;
- improving infrastructure, such as roads; and
- conducting economic development planning.

To determine what economic development resulted from these grants, we gathered information from all 95 tribes that received EDA grants for enterprise, infrastructure, and business development projects from 1993 to 2002 by (1) visiting 15 tribes to inspect the projects funded and (2) conducting a telephone survey of the remaining 80 tribes. If these tribes also received a planning grant from EDA, we also obtained information about the results for the planning grant from tribal officials. We analyzed this information to identify the extent to which the projects these grants funded were profitable or had led to other economic development. Our survey results reflect the information provided by and opinions of tribal officials who participated in our survey. We also interviewed EDA officials in headquarters and regional offices to discuss application and monitoring policies and procedures and reviewed Inspector General reports involving EDA funding to tribes.

To determine the relationship between the economic profile of tribes and the extent to which they had self-determination contracts or self-



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governance compacts, we identified the extent to which tribes in the lower 48 states were contracting using a database that shows the amounts from federal programs received by tribes that received at least \$300,000 in federal assistance.<sup>3</sup> For purposes of our analysis, we placed tribes into one of the following three separate groups:

- self-governance tribes that receive funds to perform multiple services.
- tribes whose total contracting dollars exceeded a calculated threshold (high-contracting tribes), and
- tribes below this amount (low-contracting tribes).<sup>4</sup>

Using data from the U.S. Census Bureau (Census), we compared the extent to which various economic variables, such as the per capita income of the Native Americans living in the tribal area, had changed from 1990 to 2000 for the tribes in these three groups.<sup>5</sup> Because we were not able to include the extent to which other external factors also affected the tribe's economic development, our results cannot be used to definitively determine whether any changes in tribes' economic profiles are the result of the extent to which they engaged in contracting or self governance. Our contracting analysis also included only 219 tribes located in the lower 48 states for which requisite information for our analysis was available and excluded Alaska Native entities because comparable contracting and economic profile data was not available. We performed various steps to assure ourselves of the reliability of the data that we used in the analyses

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<sup>3</sup>This database is the Single Audit Act database and is operated by the Federal Audit Clearinghouse within the Bureau of the Census on behalf of the Office of Management and Budget. The Single Audit Act database contained the results of audits by private accounting firms of entities that received more than \$300,000 in federal monies between 1997 and 2002. We analyzed data only for tribes in the lower 48 states because data on Alaska Native entities was not comparable.

<sup>4</sup>We classified tribes with per capita BIA contracts and grants exceeding \$580 and total BIA contracts and grants exceeding \$300,000 as "high-contracting." We limited our analysis to tribes with a reservation population of 100 or more Native Americans.

<sup>5</sup>For this analysis, we only included those tribes in the lower 48 states that are federally recognized, had available 2000 Census data, and had tribal population of 100 people or more based on population data from the 2000 Census. Various tribes have filed suit against federal agencies alleging that the 2000 Census undercounted their tribal members. However, we had no information indicating that any such undercounting would affect the economic profile indicators we used in our analysis.

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for this report and we describe these efforts in appendix I. We determined that the data was sufficiently reliable for our purposes.

We conducted our work in Washington, D.C.; Philadelphia; and various locations in California, Alaska, Arizona, New Mexico, and Washington from July 2003 through September 2004 in accordance with generally accepted government auditing standards. Appendix I contains a detailed description of our scope and methodology.

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## Results in Brief

Indian tribes have used EDA grants to create businesses, build roads and other infrastructure, and create economic development plans, but these grants have had mixed success in generating jobs, income, and private sector investment. From 1993 to 2002, 143 tribes received \$112 million in EDA grants. We also found that grants to tribes represented a small portion of EDA's annual awards and the extent to which tribes obtained EDA grants varied across states and regions. With these grants, EDA seeks to create jobs, generate revenue, and attract private investment. Of the \$112 million total, \$54 million was used to fund grants for 63 projects designed to create income and jobs—called enterprise projects. Of 31 projects completed for which results were available, tribal officials we contacted reported that 23 percent were profitable, 32 percent were covering costs, 23 percent were being subsidized, and 23 percent had failed. Most of these projects have created 10 or fewer jobs and did not attract direct private sector investment. EDA also provided less than \$5 million to support business development projects, including revolving loan funds and training activities.

From 1993 to 2002, EDA also provided \$22 million in grants to 23 tribes for infrastructure projects such as roads and sewer systems. Officials of the tribes that received these grants reported that the infrastructure improvements EDA funded resulted in the development of industrial parks, hotels, casinos, and other commercial enterprises. But many tribal officials reported that a lack of capital for infrastructure and other projects limited their development efforts. During the 10-year period, EDA also provided \$30 million in grants to 99 tribes to conduct economic planning. Nearly all of the tribes that received EDA planning grants also received either additional funding from EDA or from other federal agencies for enterprise or economic development projects.

Through funding from BIA and other federal agencies, nearly all tribes now have contracts or self-governance compacts to operate many of their own

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tribal programs and services. Although we did not analyze whether a direct causal relationship exists, we found that the tribes that were self-governing or engaged in a high level of contracting showed greater gains on average in employment levels from 1990 to 2000 than did tribes that were contracting to perform fewer of their own programs and services. However, our analysis found that on average the high-contracting and self-governance tribes had not experienced greater growth in per capita income or in the percentage of Native Americans in the tribal area living in households with incomes above the poverty level than had low-contracting tribes. Although their incomes did not grow faster on average, a greater percentage of high-contracting and self-governance tribes experienced positive growth in their levels of employment, per capita income, and percentage above poverty than did low-contracting tribes.

Tribal officials also indicated that running their own programs through contracts and compacts allows them to gain self-governance experience and to tailor the programs to their own needs. However, they noted that the failure of these contracting and compacting arrangements to provide for adequate funding of administrative costs is a disadvantage and can reduce the resources such tribes have for other economic development activities. Discussions with tribal and federal officials and reviews of various studies of Indian economic development issues also indicated that other factors such as the desirability of a tribe's location, availability of exploitable resources, the adequacy of the physical infrastructure near tribal areas, and the stability of tribal government were important determinants to the level of economic success that tribes experienced. For example, tribes located in areas with natural features that serve as a tourist draw or those located closer to areas with large urban populations may be able to develop economically more easily than other tribes.

This report does not contain recommendations. We requested and obtained comments from the Department of Commerce, which provided EDA's comments, and the Department of the Interior, which provided BIA's comments; these agencies written comments are discussed later in this report and are reproduced in appendixes IV and V, respectively. BIA generally agreed with our conclusions and stated its support for increased self-determination contracting and compacting as a means of improving tribal economic development efforts. EDA acknowledged that its enterprise development investments had mixed success given the EDA investments we reviewed and evaluated. EDA stated that the success of other types of EDA investments should be considered in order to make a broad statement about the economic development generated by EDA

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grants as a whole. After considering our findings for all the EDA grants to tribes between 1993 and 2002, we believe that our conclusion that EDA grants have had mixed success is accurate. The grants for enterprise projects represent the largest portion—almost half—of the funding EDA provided to tribes during this period and these grants, as our report shows, have had mixed success in producing economic development. In addition, although our report presents information from tribal officials that indicated that economic development resulted from the other types of EDA grants, we found that the grants generally included projects that appeared to be successful, but also included projects that had yet to show results, had produced limited benefits, had not been sustained, or had not produced benefits.

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## Background

American Indian tribes are among the most economically distressed groups in the United States. According to data from the 2000 U.S. Census, American Indian tribes' median per capita income of \$9,200 in 1999 was less than half the \$21,600 per capita income for the entire U. S. population.<sup>6</sup> In addition, the percentage of American Indians with household incomes at or below the official poverty level averaged 30 percent across tribes—more than double the 12 percent for the U.S. population as a whole.<sup>7</sup> According to tribal officials and government agencies, conditions on and around tribal lands generally make successful economic development more difficult. These officials indicated that American Indian communities often are lacking in adequate basic infrastructure, such as water and sewage systems. These communities also frequently lack sufficient technology infrastructure, such as telecommunications lines that are commonly found in other American communities. Without such infrastructure, tribal communities often find it difficult to compete successfully in the economic mainstream. A 1999 EDA study that assessed the state of infrastructure in American Indian communities found that these communities also had other

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<sup>6</sup>These figures comparing the economic conditions for American Indians and the United States population as a whole were derived from GAO's analyses of 2000 U.S. Census data. Census data by Indian reservation were used in calculating the median figures for American Indian tribes. Only the 219 reservations with complete 2000 Census information were included in this analysis.

<sup>7</sup>The U.S. Census Bureau uses a set of money income thresholds that vary by family size and composition to detect who is poor. If the total income for a family or unrelated individual falls below the relevant poverty threshold for that size household, then they are classified as being "below the poverty level." For example, in 1999, the poverty threshold for a family of four people with two children under 18 years old was \$16,895.

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disadvantages that made successful business development more difficult.<sup>8</sup> This study found that the high cost and small markets associated with investment in Native communities continued to deter widespread private sector involvement. Another factor that creates more difficult business conditions in some tribal areas has been downturns in regionally significant industries. For example, tribes in the Northwest and Alaska have been hurt by the decline in the fishing and timber industries in their areas.

To help address the needs of Indian tribes, various federal agencies provide assistance, including economic development. BIA is charged with the responsibility of implementing federal Indian policy. BIA assists tribes in various ways, including providing for social services, developing and maintaining infrastructure, and providing education services. BIA also attempts to help tribes develop economically by providing resources to administer tribal revolving loan programs and guaranteed loan programs to improve access to capital in tribal communities and providing assistance in obtaining financing from private sources to promote business development initiatives on or near Indian reservations. In addition to the support provided by BIA, other agencies with significant programs for tribes include the Department of Health and Human Services, which provides funding for the Head Start Program and the Indian Health Service; the Department of Housing and Urban Development, which provides support for community development and housing-related projects; and the Department of Agriculture, which provides support for services pertaining to food distribution, nutrition programs, and rural economic development.

The Department of Commerce's EDA is an agency that provides assistance to tribes specifically for economic development. EDA's mission is to create wealth and minimize poverty in economically distressed rural and urban communities that experience high unemployment, low income, or other severe distress. EDA fulfills its mission with grant programs, including six programs explained in table 1.

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<sup>8</sup>Linda A. Riley, B. Nassersharif, and J. Mullen, *Assessment of Technology Infrastructure in Native Communities*, a study based on a survey of 48 Native communities, New Mexico State University, (Las Cruces, NM, 1999), EDA project no. 99-07-13799.

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**Table 1: Purposes of EDA Grant Programs**

<b>EDA grant program type</b>	<b>Purpose of grants awarded</b>
Public works and economic development	Provides grants that support construction or rehabilitation of essential public infrastructure and development facilities necessary to generate private sector jobs and investments.
Planning assistance	Provides grants to assist recipients with preparing economic development strategies and to conduct other planning and technical assistance services.
Economic adjustment assistance	Provides grants to respond to economic changes such as natural disasters, reduction in defense expenditures, or depletion of natural resources.
Technical assistance	Provides grants to assist communities in analyzing the feasibility of particular economic development investments.
Trade adjustment assistance	Provides grants to fund technical assistance centers that provide services to firms negatively impacted by foreign competition.
Research and evaluation	Provides grants to support communications and research into development programs, projects, and emerging issues.

Source: EDA.

EDA has six regional offices that administer its grant programs across multistate areas. Each regional office accepts preapplication investment proposals from prospective grantees, including American Indian tribes and Alaska Natives. Based on established regulations, EDA regional officials encourage only those investment proposals that will significantly benefit areas experiencing or threatened with substantial economic distress to continue with the application process.<sup>9</sup> Before receiving a grant, an entity must submit a preapplication proposal to an EDA Economic Development Representative responsible for that area. After preliminary reviews by various EDA regional office staff, each preapplication proposal is considered by the region's Investment Review Committee, which consists of the Regional Director, Regional Counsel, and Division Chiefs, to ensure that entity is eligible to receive funds and that the project is likely to provide benefits meeting EDA's criteria. The Investment Review Committee

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<sup>9</sup>Economic distress is defined by EDA policy as including: high levels of unemployment, low income levels, large concentrations of low-income families, significant declines in per capita income, substantial loss of population because of the lack of employment opportunities, and large numbers (or high rates) of business failures.

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will then recommend whether the entity should be invited to submit an application. EDA headquarters reviews the recommendation action for quality assurance. According to Commerce, after receiving quality control clearance and depending on the type of grant program, the Regional Director approves the decision to invite the entity to submit a formal application. After this application is received and found to be complete, the grant funds will be awarded. During the 1990s, the goals EDA generally sought to meet through its grants were to fund projects that would create jobs and produce income for distressed communities. However, since 2002 EDA has placed more emphasis on projects that create higher-skill, higher-wage jobs and that are market based and likely to attract private sector investment.

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### Activities Tribes Perform under the Indian Self-determination and Education Act Are Also Envisioned to Help Economic Development

Activities that tribes are authorized to undertake as a result of the Indian Self-Determination and Education Assistance Act, as amended, could help them develop economically. This act authorizes Indian tribes to take over the administration of programs that had been previously administered on their behalf by the Departments of the Interior or Health and Human Services. In passing the act, Congress recognized that the government's administration of Indian programs prevented tribes from establishing their own policies and making their own decisions about program services. The act allowed tribes to contract for a range of Indian programs that are managed by the Interior Department's BIA and Health and Human Services' Indian Health Service on their behalf.<sup>10</sup> According to the act, tribal contractors must receive funding equivalent to what each of the agencies would have provided if they had operated the programs. The act, as amended, also provides that tribal contractors are to receive funding for the reasonable costs of activities that they must perform to manage a program's contract—known as contract support costs.<sup>11</sup> Once having

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<sup>10</sup>These contracts are known as 638 contracts because the authority to contract was created by Pub. L. No. 93-638, the Indian Self-Determination and Education Assistance Act of 1975.

<sup>11</sup>The statute also provides that the funding of contract support costs is subject to the availability of appropriations and that the Secretary is not required to reduce funding for programs, projects, or activities serving a tribe to make funds available to another tribe or tribal organization. In *Thompson v. Cherokee Nation of Oklahoma*, 334 F.3d 1075 (Fed. Cir. 2003), *cert. granted* 125 S.Ct.1656 (No. 03-853), the Court of Appeals for the Federal Circuit determined that the Secretary of Health and Human Services lacked discretion to refuse to reprogram funds from a lump-sum appropriation to meet a contractual obligation to pay a tribal contractor the full indirect contracts support costs. The Supreme Court has agreed to review the case.

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contracted a program, a tribe assumes responsibility for all aspects of its management, such as hiring program personnel, conducting program activities, delivering program services, and establishing and maintaining administrative and accounting systems. Typical programs that are contracted by tribes include such BIA programs as law enforcement, social services, road maintenance, and forestry as well as such Indian Health Service programs as hospitals and health clinics; dental care; and mental health services.

Congress has amended the act several times since 1975. A series of amendments from 1984 through 1994 streamlined contracting requirements, provided funds for contract support, and allowed more participation by tribal governments in federal rulemaking. In 1988, a new title was added to the 1975 act authorizing the creation of the Self-Governance Demonstration Project that enabled a number of tribes to receive funding for multiple federal programs in one lump sum under a self-governance agreement. This new title to the act, known as Title III Self-Governance Demonstration Project, enables tribes generally to receive funding for multiple federal programs in one lump sum under a self-governance compact. Tribes operating under a self-governance compact have the flexibility to administer funds for multiple programs as they see fit, rather than abiding by the circumstances of single-program contracts. The 1988 amendment also added reasonable contract support costs to comply with the terms of the contract and to support prudent management. The Tribal Self-Governance Act Amendments of 1994 directed the Secretary of the Interior to negotiate contracts annually with participating tribes to enable the tribes to plan, conduct, consolidate, and administer functions and activities that were administered by the Secretary. Through the act and the subsequent amendments, Congress envisioned that Indian tribes and Indian people are best able to determine the most effective and efficient provision of government programs, services, and economic development for Indian people.



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## EDA Grants Have Provided Some Benefits to Tribes, but Overall Success in Producing Economic Development Has Been Mixed

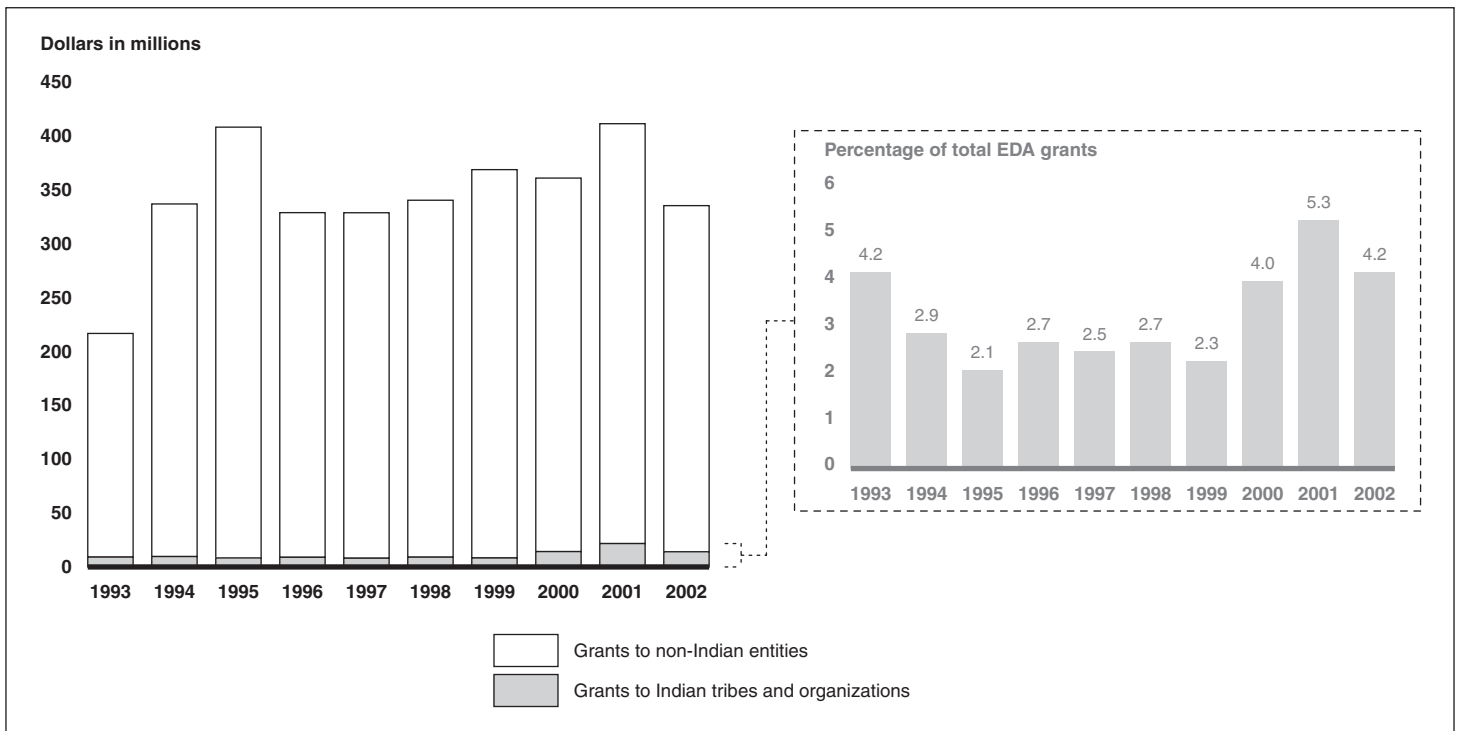
The funding that EDA provided to tribes between 1993 and 2002 represented a small portion of the economic assistance that EDA provided during this 10-year period. The extent to which tribes received EDA grants varied across states and these were used for various purposes. From 1993 to 2002, EDA provided funding for 63 enterprise projects intended to generate revenues but these have had mixed success in producing economic development. EDA has also provided a small amount of funding for business development activities, including several revolving loan funds, which were used to fund tribal enterprises or training. In addition, 23 tribes received EDA grants for infrastructure projects that tribal officials reported as having resulted in subsequent economic development activities for their tribes. During the 10-year period, 99 tribes and tribal organizations received EDA grants for planning activities, including feasibility studies, and almost all of the tribes that got these grants either received other funding from EDA or obtained economic development aid from other government agencies.

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## EDA Grants to Tribes Represented a Small Portion of its Overall Program

The funding that EDA provided to tribes represent a small portion of overall EDA grants. We obtained data from EDA that included all grants it made to American Indian tribes during the years 1993 to 2002. Our analysis of these data indicated that 143 Indian tribes and tribal organizations received a total of \$112 million in EDA grants during this 10-year period. Comparing this with the total amount of grants that EDA awarded, EDA grants to tribes represented 3 percent of the \$3.4 billion that the agency had awarded overall between 1993 and 2002. Figure 1 shows the relative proportion of funding that tribes received each year from EDA, which ranged between 2.1 percent and 5.3 percent of total EDA grant appropriations during this period.

**Figure 1: Total EDA Grants Appropriations and EDA Grant Dollars to Indian Tribes and Organizations, 1993-2002**



Source: GAO analysis of EDA data.

Note: This is in actual dollars.

Using information from the 2000 Census, we calculated that approximately 3.5 percent of the persons in the United States with income below the official poverty level are American Indians or Alaska Natives. Therefore, the proportion of EDA funds going to tribes appears to be similar to the proportion of the U.S. population living in poverty that these tribes represent.

Based on our analysis of EDA data, 125 (or 22 percent) of the 562 federally recognized tribes in the lower 48 states and Alaska received EDA grants between 1993 and 2002. EDA also provided grants to 18 tribal organizations or Alaska Native entities. According to EDA officials, other tribes did not receive any EDA grants for various reasons. For example, they said that the demand for funding exceeds the available grant funding. Also, one EDA official said that some tribes are unable to propose a project that appears likely to generate sufficient economic development.

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## EDA Funding to Tribes Varied across States

Of the \$112 million in total grants to tribes that EDA awarded between 1993 and 2002, \$86 million went to 113 tribes in the lower 48 states. This included grants to 100 federally recognized tribes and 13 tribal organizations. The remaining \$26 million was awarded to 30 Native entities in Alaska, including grants to 25 federally recognized Native entities and 5 Alaska Native organizations representing more than one entity.<sup>12</sup>

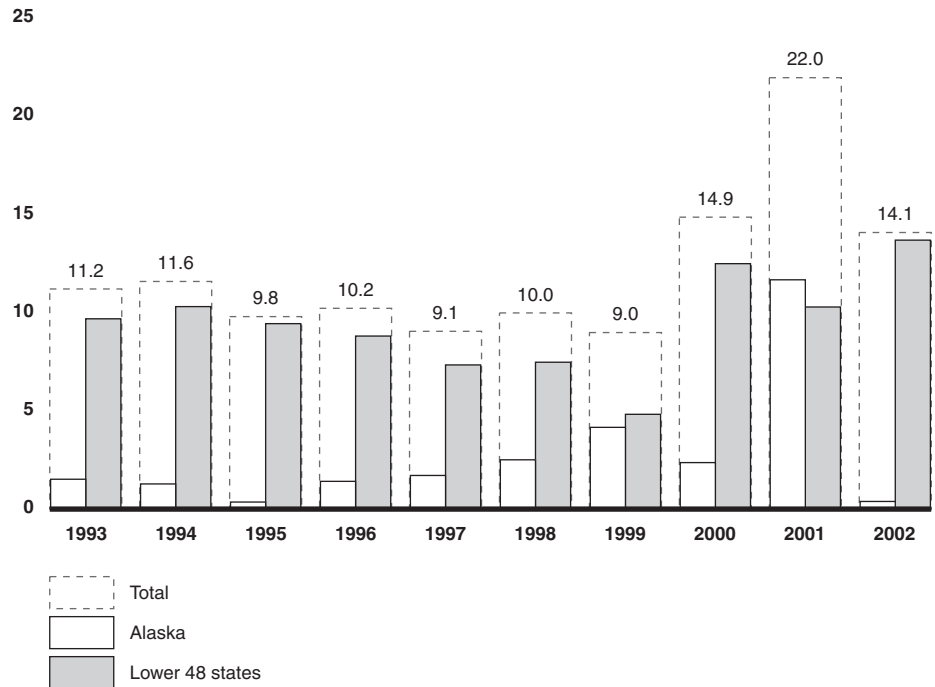
Our analysis indicated that the amount of EDA funding to tribes varied across states. For example, Alaska accounted for almost 23 percent of EDA grants to all tribal entities during the years 1993 to 2002, as shown in figure 2. In 2001 alone, Native entities in Alaska received over half of all EDA grants to tribes, much of which were awarded under EDA's disaster relief appropriation for projects to address the slump in Alaska's fishing industry.

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<sup>12</sup>These federally recognized entities are based on classifications made by BIA and refer to those Indian tribal entities (in the lower 48 states) and Native entities (in the state of Alaska) that are recognized by and are eligible to receive funding and services from BIA, see 68 *Fed Reg.* No. 68180 (Dec. 5, 2003).

**Figure 2: EDA Grants Received by Indian Tribes and Organizations, 1993-2002**

Dollars in millions

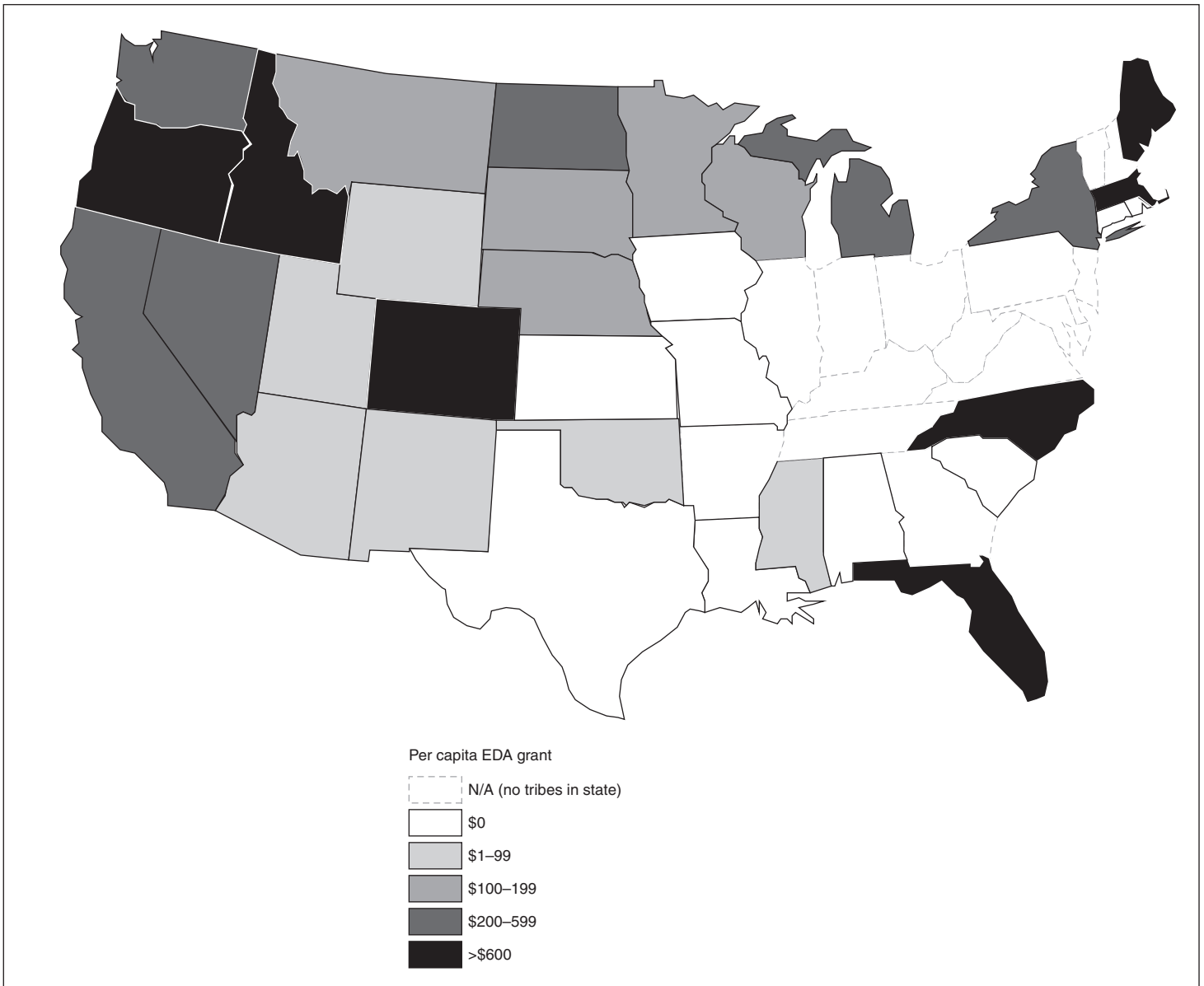


Source: GAO analysis of EDA data.

Note: This is in 2002 constant dollars.

In addition to more tribes in some states receiving grants, our analysis showed that EDA-awarded grants to tribes also varied on a per capita basis across states. As figure 3 shows, tribes in seven states, including Colorado, Florida, Idaho, Maine, Massachusetts, North Carolina, and Oregon, received more than \$600 per individual in grants from EDA between 1993 and 2002. In contrast, tribes in at least eight states received no EDA grant funding during this period.

Figure 3: Per Capita EDA Grants to Tribes, 1993-2002



Sources: GAO analysis of EDA, 2000 Census data, and the *Federal Register's* list of federally recognized tribes.

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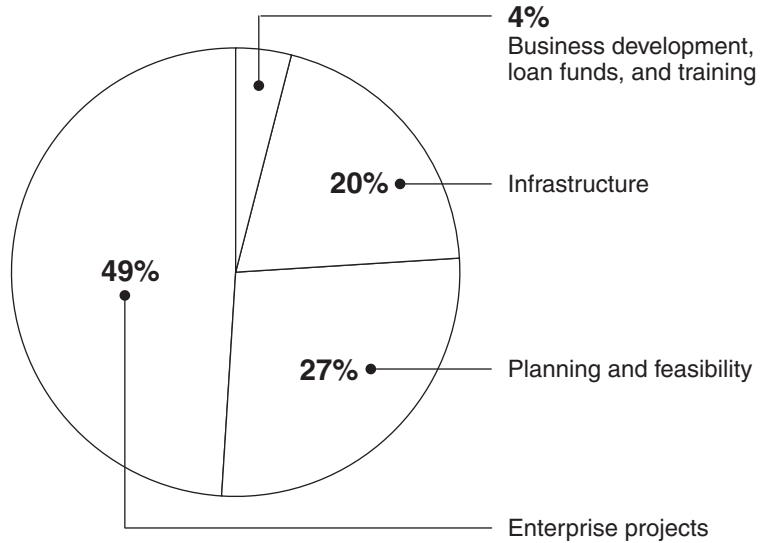
## EDA Grants to Tribes Used for Various Purposes

The grants EDA made to tribes were for various purposes. In the data we analyzed, EDA categorized the grants it awarded according to the various funding programs it administers, such as for planning, public works, or economic adjustment. However, upon review of these data, we found that EDA used funds from these different categories to provide grants for similar types of projects. For example, an economic adjustment grant or a public works grant could be used for either the planning of a project or the construction of a project. Therefore, for our analysis, we grouped the various grants into the following categories according to type of project or activity funded:

- *Enterprise projects*: grants used to develop projects designed to generate income for the tribe, such as a cannery, a resort, or a sawmill;
- *Infrastructure projects*: grants used for the design and construction of public works infrastructure (e.g., roads, highways, and sewers) that would serve as the foundation for general economic development activities;
- *Business development projects*: grants used to fund loan funds, training, and other business development projects, including those for business incubators, revolving loan funds (RLF), training and capacity building, and other assistance that enhances the tribes' economic development activities; and
- *Planning/feasibility grants*: grants used for general planning purposes such as paying for staff salaries or the broad administration of the tribes' planning departments, as well as for developing plans, analyses of projects' environmental impact, and feasibility studies for specific economic development projects.

Based on the results of our analysis of EDA data, we found that the largest portion of the dollars EDA awarded to tribes were for enterprise projects. As figure 4 shows, about half of the \$112 million that EDA awarded to tribes between 1993 and 2002 was for enterprise projects. Grants for planning and feasibility studies represented the next largest portion of the grants.

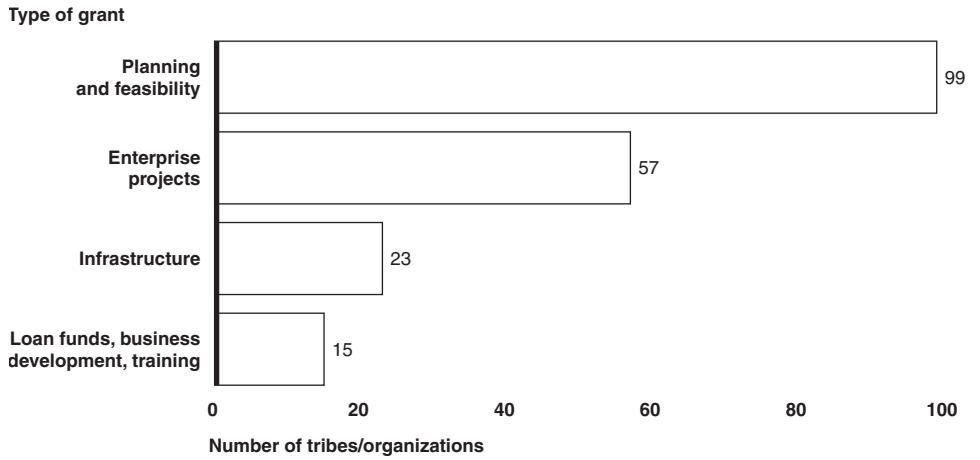
**Figure 4: Proportion of Total EDA Grant Funding to Indian Tribes and Organizations by Grant Type, 1993-2002**



Source: GAO analysis of EDA data.

In addition to accounting for 27 percent of grant dollars EDA awarded between 1993-2002, the most frequent type of grant that tribes received was for planning and feasibility studies. As shown in figure 5, more tribes received planning and feasibility grants than any other type.

**Figure 5: Number of Tribes Receiving EDA Grants by Type of Grant, 1993-2002**



Source: GAO analysis of EDA data.

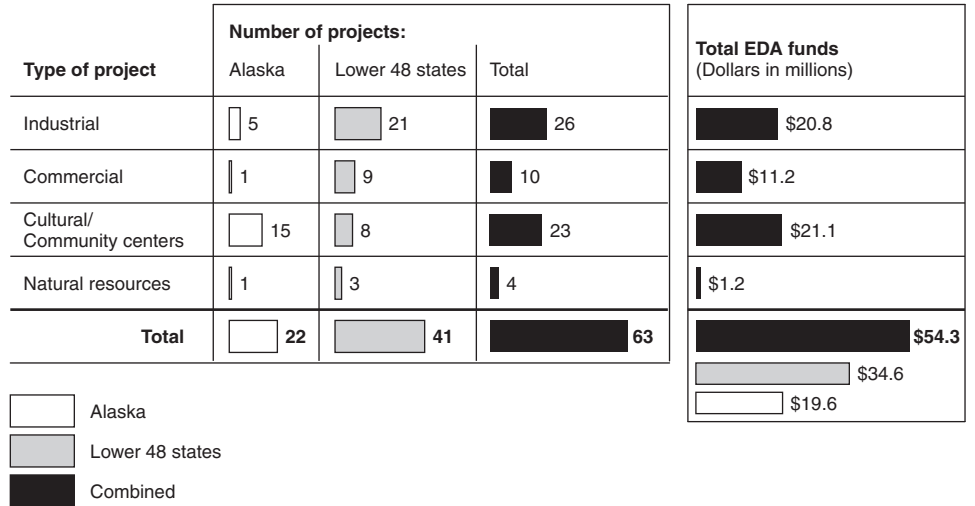
Note: A tribe could receive more than one type of EDA grant.

## EDA Funding of Tribal Enterprise Projects Has Had Mixed Success Generating Economic Development

The grants that EDA provided to tribes have had mixed success in creating revenue-generating enterprises. Of the \$112 million that EDA provided to tribes from 1993 to 2002, as shown in figure 6, \$54 million or nearly half went to fund 63 tribal enterprise projects, including almost \$20 million for projects in Alaska. As shown in figure 6, most of the enterprise projects EDA funded for tribes included industrial enterprises, such as wood products plants, or commercial projects, such as retail businesses and shopping centers. Most of the EDA-funded enterprise projects in Alaska involved community or cultural centers, which provided facilities for community and tourist activities. Some of the EDA grants also funded natural resource enterprises involving fish, wildlife, or horticulture restoration.



**Figure 6: Types of Enterprise Projects Funded, 1993-2002**



Source: GAO survey of EDA data.

Figure 7 describes an example of one enterprise project that EDA funded. This grant helped a tribe fund the development of a horticultural enterprise that grows vegetation to improve fishing areas in local rivers. Although producing some benefits, at the time we contacted the tribe operating this project, they were using funds from other sources to subsidize its operations, although they hoped it would eventually be profitable.

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**Figure 7: Example of Horticulture Enterprise EDA Funded**



Source: GAO.

In 2000, EDA provided \$317,000 covering about one-third of the cost of establishing a tribal horticulture enterprise, which restores the riverbanks with native vegetation to improve the fish runs. According to tribal officials the enterprise is currently being subsidized by grants from various sources, but they hope it will be profitable in the future if they are able to get more contracts. Employment has fluctuated, but includes the hiring of at-risk youth. Tribal officials also reported that BIA has agreed to spend \$1.2 million to upgrade the road to the nursery, and the tribe was seeking an additional \$150,000 from EDA to expand the operation.

The enterprise projects EDA funded for tribes have had mixed success in helping tribes create revenue-generating enterprises. We gathered information on 59 of the 63 projects funded by EDA between 1993 and 2002—12 by site visits and 47 by telephone interviews with tribal officials. Tribal officials we contacted in late 2003 and early 2004 reported that

- 31 projects had been completed;
- 3 were completed, but just opened, and no operating results were yet available; and
- 25 had not yet been completed, including 20 projects funded in 2001 and 2002.

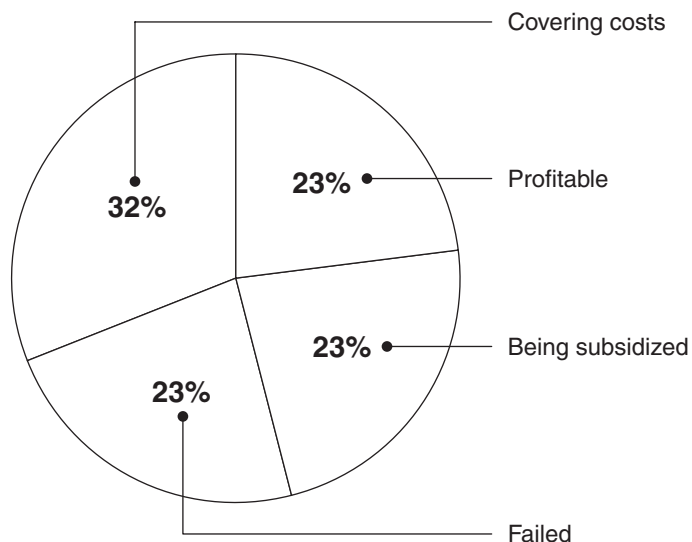
As shown in figure 8, of the 31 completed projects with results, tribal officials reported about half were either profitable or were earning enough to cover their operating costs. However, the remaining projects were either requiring subsidies or had ceased operations. Tribal officials predicted that

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4 of the 7 projects currently being subsidized could become sustainable given more time or further expansion.

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**Figure 8: Status of Completed Enterprise Projects Funded by EDA, 1993 to 2002**



Source: GAO analysis of data from survey of tribal officials.

Note: Percentages do not add to 100% due to rounding.

Five of the 7 projects that failed were industrial enterprises, including a sawmill, a bottled water plant, and a plant to manufacture fiberglass household furnishings. According to tribal officials, the reasons for failure included market changes or downturns, lack of an ongoing source of funding to keep the enterprise afloat, management problems, and environmental problems. Four of the 7 failed enterprise projects were funded between 1993 and 1995. However, in recent years, some tribes reported that they have been able to keep fledgling enterprises afloat by subsidizing them with revenues from gaming or other tribal enterprises, and the failure rate for EDA-funded enterprise projects has decreased. Since 1996, EDA funded 24 tribal projects that had been completed and, of these, 14 were either profitable or covering their costs, 3 had failed, and 7 were still being subsidized (see appendix II, figure 30 for more information on the outcome of projects by year of funding). Figure 9 provides an example of a project that, although it has not failed, is used only once a year and must have its operating costs subsidized by the tribes that operate it.

**Figure 9: EDA-Funded Cultural Center**

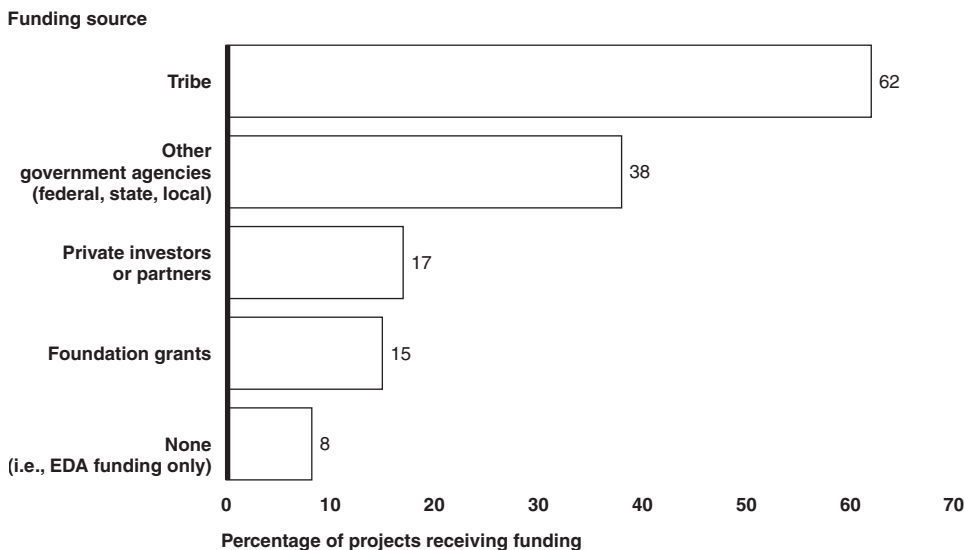


Source: GAO.

In 2001, EDA provided \$1.3 million covering about 60 percent of the cost of constructing this cultural center. The center opened in mid-2003. The site hosts a large annual arts and crafts festival. Tribal officials hope that the center will be used as a gallery that artists can use to display and market artwork throughout the year. However, despite the receipt of annual planning grants from EDA, the center was built without first developing a business plan for its use. Tribal officials said they were currently working on developing a business plan. At the time of our visit in early 2004, the facility was empty and not being used, except for a couple of offices in the back. An EDA official we spoke with considered the project a success because the once-a-year festival generates considerable revenue.

Our analysis of the enterprise projects that EDA funded indicated that most of the projects that tribes developed with EDA funding had not attracted funding from private entities. For most of the enterprise projects we reviewed, EDA funds covered between 30 percent and 80 percent of the total project costs. As shown in figure 10, tribal officials reported direct private sector investment in 17 percent of the projects, though in some cases the tribal share of project funding included funds borrowed by the tribes from private financial institutions. EDA officials recognize the difficulty tribes face in attracting private investment on Indian lands and sometimes make allowances for the amount of matching funds they require or suggest to tribes that they locate projects outside of reservation land.

**Figure 10: Other Funding Sources for EDA-Funded Enterprise Projects**

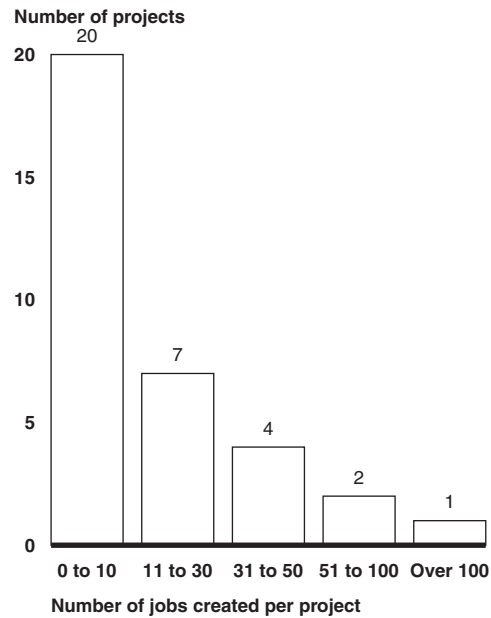


Source: GAO survey data.

Note: Some projects had multiple sources for the non-EDA share of project funding. Figures based on 53 projects for which funding source data was available.

The grants that EDA provided to tribes for enterprise projects also appeared to create limited numbers of jobs. Tribal officials told us that many of the EDA-funded enterprise projects had resulted in the creation of jobs for tribal members, although the number of jobs created generally was less than 10 per project. As shown in the figure 11, 20 (59 percent) of the enterprise projects resulted in 10 or fewer jobs.

**Figure 11: Number of Jobs Created by EDA-Funded Enterprise Projects, 1993-2002**



Source: GAO analysis of data from survey of tribal officials.

Note: Jobs created represents number of jobs at the enterprise at the time of our survey that did not exist prior to project funding, as reported by tribal officials. Some tribes reported seasonal jobs, which we counted as one-half of a nonseasonal job. (Total = 34 completed projects.)

Although most projects did not create a large amount of jobs, some projects that EDA funded were more successful in employing larger numbers of people. Of the 34 completed projects we reviewed, 4 projects resulted in the creation of 50 or more jobs. These included the following projects:

- One Northwest tribe received a \$1.6 million EDA grant in 2002 to help fund the opening of a plywood processing plant that uses wood from the tribe's own forests. The total project cost was \$10 million, with additional funds coming from other federal and state grants, the tribe, and a bank loan. Tribal officials reported that the enterprise has created 265 jobs in a generally depressed rural area and is generating enough revenue to cover costs, including debt servicing.
- One Southwest tribe we visited received a \$2.5 million EDA grant in 2000 to help fund a shopping center. Total project cost was nearly \$4.5 million, including an earlier \$1 million investment by the tribe to install

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basic infrastructure for the site. The project was built to accommodate seven retail businesses. At the time of our visit, the center had five tenants—a grocery store, pizza restaurant, laundromat, hair salon, and video store—and two vacancies. According to tribal officials, the project was still being subsidized by the tribe but is expected to be profitable in 3 to 5 years. According to a tribal report, the center had generated 70 jobs, provided retail services to local consumers, stopped a portion of leakage of tribal dollars to off-reservation towns, and provided opportunities for some tribal members to go into business.

- A Montana tribe received three EDA grants totaling \$1 million between 1996 and 2002 for expansion of a tribal electronics enterprise. Total cost of the expansion projects was \$2 million. According to tribal officials, the projects generated a total of 65 new jobs, including participants in a welfare-to-work program. The first two projects were profitable, but the third project was not yet turning a profit as of early 2004.

Although the projects EDA funded had only mixed success in generating revenue and large numbers of jobs, tribal officials told us that the EDA-funded enterprise projects had produced other benefits. In some cases, tribal officials said that the projects EDA funded resulted in the creation of jobs and revenue at other entities. For example, one tribe used a \$350,000 EDA grant in 1997 to help fund construction of a fish hatchery. This enterprise did not make a profit, but 15 jobs were created at the hatchery. The project had indirect economic benefits to the tribe because it helped to support the local fishing and tourism industry, which employed 15 to 20 tribal individuals as fishing guides and 8 seasonal jobs at a campground. The hatchery also generated increased business for local restaurants and motels and enabled tribal subsistence fishermen to catch fish for their own consumption. (See app. II, fig. 29, for a list of the completed enterprise projects for which we obtained information.)

In light of the mixed success that EDA-funded enterprise projects experienced, tribes may find obtaining EDA funding in the future more difficult because of the changes in the agency's criteria for awarding grants. Since fiscal year 2002, EDA's criteria for approving grant applications requires its staff to seek to fund projects that create jobs requiring greater skills and paying higher wages. Their criteria also emphasize projects more likely to attract private sector investment. In meeting these criteria, EDA officials informed us that tribes have to compete with other entities such as state and local governments and nonprofit organizations for EDA grants. As a result, tribes in rural areas, in particular, find it difficult to propose

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projects that are likely to attract private sector investment or result in jobs that pay high wages. For example, EDA officials we spoke to in one EDA region noted that communities closer to urban areas were more likely to be able to propose projects, such as industrial parks, that were likely to attract high technology firms than were the more rurally-located tribes in their region.

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### EDA Also Provided Funds for Loan Funds and Other Business Development Activities

From 1993 through 2002, EDA also awarded grants to tribes to be used for loan funds, business development, and training. Grants for these purposes totaled \$4.9 million, comprising 4 percent of the total \$112 million that EDA provided to tribes during that 10-year period. About \$2.2 million of the EDA grants were to support RLFs. These RLFs are pools of money loaned out for revenue-generating enterprises. The repayment of loan principal and interest replenish the RLF, creating a revolving source of capital to finance additional loans and further develop the local economy. Of the \$2.2 million EDA awarded for RLFs between 1993 and 2002, \$950,000 was to provide the initial capital—seed money—to get three new RLFs started and about \$1.3 million was used to support business development and training programs associated with two existing RLFs (see app. II for details).

Tribal officials reported that these RLFs EDA has supported have successfully funded both tribal enterprises and small businesses started by individual tribal members. For example, a tribe in Northern California has administered one of these RLFs since 1977, when EDA originally provided initial capital of \$1.5 million to finance loans relating to the tribe's forest industries. Since 1994, EDA provided \$285,000 to fund a business training program to assist applicants seeking funding from this RLF with instruction on preparing business plans, contract agreements, credit applications, and on the use of computers and other office equipment. According to documents provided by fund officials, over the years, this RLF has made 356 loans to businesses resulting in 658 new jobs and attracted \$7.8 million in private sector investment.<sup>13</sup> Among the projects tribal officials told us had received funding from this RLF included a shopping center, a motel, a restaurant, a gas station, and a gravel enterprise. Tribal officials told us that most of the projects this RLF has funded have provided jobs or other benefits, although not all are operating profitably. To keep the more marginal enterprises operating, tribal officials reported using profits from

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<sup>13</sup>Tribal officials said that many, but not all, of the businesses and jobs generated over the years are still in operation, but exact figures were not available.



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the tribe's own successful enterprises to subsidize the financing costs of the other enterprises. By keeping these enterprises in operation until loans were paid off, their community benefits from the additional jobs and services, and the enterprises receive additional time to become sustainable on their own. According to documents provided by fund officials, the total amount of loan defaults as a percentage of the total loaned out since inception for this tribe's RLF was 5.4 percent, and through repayments of principal and interest the fund's capital pool has more than doubled to over \$3.2 million. Although we did not attempt to independently verify the accuracy of these figures, we visited several of the businesses the tribe indicated had received funding. For example, the gravel enterprise, in its first year of production since receiving an \$850,000 loan from the RLF to purchase rock-crushing machinery, was in full production, and enterprise officials expected to turn a profit within 2 years and hoped to add an asphalt plant in the future. At the time of our visit, we saw that this facility was operating actively with considerable truck traffic into and out of the facility.

The amount of loan activity by the three newly-funded RLFs has been limited by start-up challenges and the amount of money in these funds. According to RLF officials we interviewed, there are many challenges to establishing a successful RLF, including finding additional funds to match EDA's seed money and cover operating costs until sufficient interest income begins to be received. Other challenges include finding and hiring a competent, experienced loan manager; training loan applicants in such areas as drawing up business plans; and establishing relationships and gaining the confidence of financial institutions to leverage the loans. One of the RLFs took 3 years from the time its EDA grant was approved until its first loan was made. At the time of our survey, the three RLFs that EDA had funded since 1998 reported each had made between 7 and 14 loans. Because new loans cannot be made until older loans are repaid, considerable time is required for RLFs to grow and become more active.

Figure 12 shows an example of a resort cabin business that was funded by a loan from an EDA-supported RLF. EDA also funded a grant that was used for the design of the project. The tribe operating the project reported that the project is generating enough revenue to cover its costs despite a short tourist season, but they hoped that an expansion of the project could make it profitable.

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**Figure 12: Resort Cabins That EDA Funding Has Supported**



Source: GAO.

In 2001, EDA provided \$257,000 to fund the design and engineering of cabins for a tribal resort development. Construction of the cabins was subsequently financed by an EDA-seeded revolving loan fund, and the resort is in operation. According to tribal officials, the resort is covering its costs despite a short tourist season, but it will require further expansion to be profitable.

In addition to grants to support RLFs, EDA also provided tribes with funding for training or business development, but according to tribal officials, the success of these programs has been hampered by lack of operating funds. Between 1993 and 2002, EDA provided Indian tribes with \$2.1 million in grants to start 6 training programs. The largest of these was a \$1.2 million grant in 2000 to renovate a building for a vocational training center in Alaska that, according to local officials, has trained 830 students. A California tribe that, according to a tribal official, lost 150 jobs due to timber industry closures, used a \$66,000 grant in 1998 to establish a training program that has resulted in 2 entrepreneur classes, 100 individual business counseling sessions, and 5 start-up businesses. All 6 of these programs sought operating funds from other sources, such as state and federal agencies. However, 4 of the 6 programs reported difficulties getting

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on-going operating funds—two closed down due to lack of funds, one transferred its facilities to a university program, and the fourth reported that its program was in jeopardy.

In addition to training programs, EDA also provided about \$500,000 to six other Indian tribes and organizations for business development activities between 1993 and 2002. In most cases the grants were for one-time training workshops or conferences on business development related topics. In two cases, the grants were used to recruit several businesses for business/industrial parks. One tribe, which received a \$75,000 grant in 2000, reported finding one current and two future tenants for their park and used part of the grant to conduct a seminar on how tribal businesses can apply for government contracts under the Small Business Administration's 8(a) minority contracting program.

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### EDA Infrastructure Grants Reported to Have Facilitated Development

About 20 percent of the funding that EDA provided to Indian tribes between 1993-2002 was for projects to improve infrastructure for tribal lands. According to government and tribal officials, many rural Indian communities lack the infrastructure needed to support industrial and commercial development, such as roads, water and waste treatment pipelines, and processing facilities. A 1999 EDA study cited lack of funding as the overwhelming reason why tribes were not making the infrastructure investments needed to facilitate economic development.<sup>14</sup> The tribal officials we spoke with said that obtaining sufficient funding for infrastructure development was particularly difficult because such projects do not always offer an immediate return on the investment. However, in some cases tribes with revenues from gaming and other tribal enterprises were able to use these sources in addition to funding from EDA and other federal grants to finance improvements to their infrastructure.

Our analysis indicated that EDA provided \$22.1 million in grants to 23 tribes for 26 infrastructure projects between 1993 and 2002. In many cases, these funds were supplemented by grants from other federal agencies. Most of these projects involved construction or expansion of water and waste treatment systems, electrical lines, and roads. Other grants that EDA awarded were used to improve dock and harbor facilities, to shore up riverbanks for flood control, and to install telecommunications equipment.

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<sup>14</sup>Linda A. Riley, B. Nassersharif, and J. Mullen *Assessment of Technology Infrastructure in Native Communities*, (EDA project no. 99-07-13799: 1999).

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For example, one coastal tribe we visited used \$2.6 million in EDA funds to construct a breakwater and marina to support and protect the tribal fishing boats and to bolster the tribe's seasonal boating-related tourism industry (see figure 13). Another tribe we visited received a \$1 million EDA grant in 1997 to construct the water and sewer pipes, roads, and electrical lines needed for a new industrial park.

**Figure 13: Marina and Breakwater Constructed with EDA Grant Funds**



Source: GAO.

Between 1996 and 1999, EDA provided \$2.6 million to cover about half the cost of constructing a marina and breakwater to protect tribal fishing boats from being lost during storms and facilitate the expansion of the boating-related tourism industry. The tribe is seeking further infrastructure funding to expand their water system to be able to support further economic development.

Of the tribes that received EDA infrastructure grants, tribal officials reported that the funded projects facilitated either current or anticipated future business development. We gathered information on 25 of the 26 EDA infrastructure grants, visiting 4 during our site visits, and conducting telephone interviews for the remainder. Nineteen of the 25 projects had been completed and, according to tribal officials, all have led to economic development for their tribes. For example, one tribe received a \$1.1 million EDA grant in 1995 to upgrade and extend their water and sewer systems, which enabled the development of a resort, hotel, and casino complex with more than \$25 million in annual revenues. Tribal officials reported that the complex has created more than 550 jobs, which helped reduce the tribal

unemployment rate from 37 percent to 11 percent. According to these officials, the success of this project is spurring further economic development, including a planned industrial park. Figure 14 shows the various developments that were facilitated by the infrastructure grants that EDA provided to tribes.<sup>15</sup>

**Figure 14: Benefits from Completed EDA-Funded Infrastructure Projects, 1993-2002**

Benefit	Number of projects
Enabled establishment of industrial parks	7
Facilitated commercial/business centers	5
Enabled development of resorts, hotels, casinos	5
Dock/harbor improvements for fishing industry, tourism, etc.	3
Other (facilitated offices, agriculture, housing, Internet use)	3

Sources: GAO survey and EDA data.

The benefits for some of the enterprise projects EDA had funded had yet to be realized. Of the 25 infrastructure projects that we reviewed, construction on 6 had not yet been completed, and 4 had only recently been opened, and tribal officials told us that it was too soon to realize most of the anticipated development benefits.

## EDA Planning Grants Helped Tribes Obtain Other Funding for Their Economic Development

About one-fourth of the total dollars that EDA awarded to tribes were provided to fund planning and feasibility study efforts, which appeared to help these tribes identify their needs and obtain other funding for their economic development efforts. According to the Department of Commerce's fiscal year performance report, EDA considers funding distressed communities' planning efforts critical to effective economic and sustainable development. Based on our analysis of EDA grants, 99 tribes and organizations received \$30 million in EDA grants to conduct planning activities or to fund the preparation of feasibility studies from 1993-2002.

<sup>15</sup>Appendix II contains more information on the results of the EDA infrastructure grants to American Indian tribes.

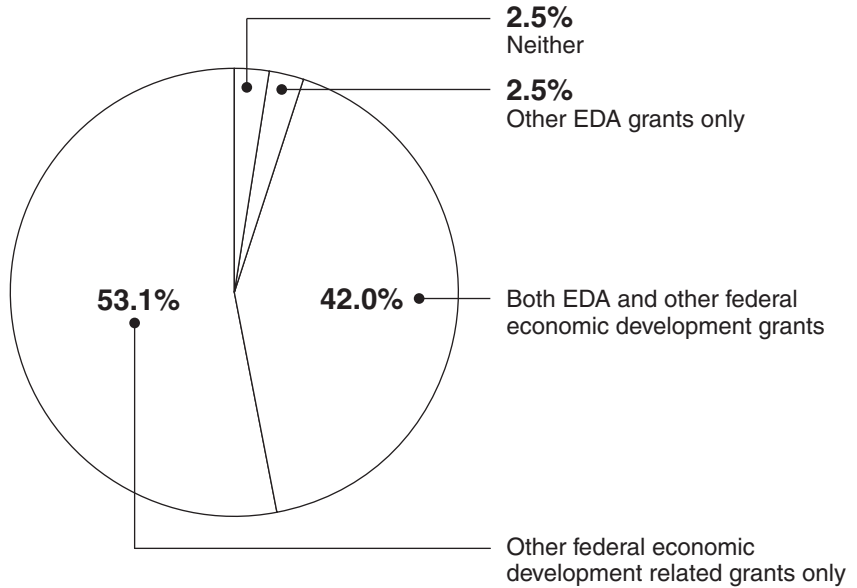
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The grants awarded for planning went to 72 tribes and 7 tribal organizations in the lower 48 states and 6 Alaska Native villages or organizations. These grants, which typically ranged from \$30,000 to \$65,000, were generally used by tribes to pay part or all of the salary of an individual tasked with developing economic development plans for the tribe. More than half of the tribes receiving planning grants received them annually throughout the 10-year period, and many have received these grants continuously since the 1970s. Over 90 percent of the tribal officials in our survey indicated that the planning grants were crucial or very important in achieving success in their tribes' economic development. However, some officials reported that the effectiveness of their planning grants was limited because of lack of funds to implement the projects they envisioned or lack of support or consensus among the tribal leadership as to what projects to pursue.

EDA also helped fund feasibility studies for 38 tribes. These grants were awarded to 34 tribes in the lower 48 states and 4 in Alaska. According to tribal officials, performing a feasibility studies before embarking on a potential project can assist tribal officials in determining whether the project would benefit the tribe. Of the 17 feasibility studies that we obtained information on from our telephone interviews and site visits, 3 of the projects studied were successfully implemented, 4 were in the planning stage, 3 were not implemented due to a lack of funds, 3 were not implemented due to a change in direction by the tribal council, and 4 were determined not to be feasible.

As shown in figure 15, most tribes that receive planning or feasibility study grants also receive project funding from EDA or other federal agencies.

**Figure 15: Percentage of Planning Grant Recipient Tribes Receiving Other Economic Development-Related Grants**



Sources: GAO analysis of EDA data and Single Audit Database data.

The EDA planning grants appeared to help tribes successfully implement EDA enterprise projects. According to the information we obtained on 25 completed enterprise projects in the lower 48 states that EDA funded from 1993-2002, 9 of 14 that had also received EDA planning grants were either profitable or covering their costs, compared with 4 of 11 projects done by tribes that had not obtained EDA planning grants. In addition, 4 of the 7 tribal enterprise projects that had failed during this period were implemented by tribes that had not received EDA planning grants.

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## Tribes Contracting to Operate More of their Own Programs and Services Generally Experienced Greater Employment Gains but Not Greater Income Growth Than Other Tribes

As authorized under the Indian Self-Determination and Education Assistance Act, as amended, nearly all tribes enter into contracting or self-governance arrangements to operate their own tribal programs and services. Based on our analysis of the relationship between contracting and changes in tribes' economic profiles, we found that self-governance tribes and those that had contracted to operate a high proportion of their programs and services generally experienced greater growth in their employment levels but had not generally shown greater gains in income levels. Our analysis also suggested that tribes that received a high proportion of their income from federal contracts and grants generally experienced lower income growth than tribes that had been able to find other sources of revenue. Despite these results, the tribal representatives saw advantages to running their own programs, including the experience such arrangements provide in administering their own affairs and the increased flexibility provided for tailoring programs to meet local needs. However, tribal officials we spoke to said that one disadvantage to contracting is the amounts provided under such arrangements can lead to funding shortfalls that divert money away from other tribal activities. Furthermore, tribal representatives and others identified other factors, such as the tribes' location, availability of resources, ability to generate gaming revenues, access to capital, and quality of tribal governance as significant influences on the ability of tribes to develop their tribal economics successfully. Because we were not able to include the extent to which these factors also affected tribe's economic development, our contracting analysis examined only the relationship to such activities and changes in economic profile and could not assess causation.

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## Most Tribes Entered Into Contracting Arrangements with the Federal Government

The Indian Self-Determination Act allows tribes to enter into various arrangements with BIA or the Indian Health Service to assume the operation of many of the programs and services previously provided by the agencies. From the list of federally recognized tribes and from 2000 Census data, we identified 219 tribes in the lower 48 states that had 100 or more Native Americans living in the tribal area.<sup>16</sup> According to BIA information, 43 of the 219 were tribes that had entered into self-governance

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<sup>16</sup>We did not include Alaska Native entities in this analysis because the contracting and economic profile data were not comparable. In addition, provision of federal funds to Alaska Native entities has unique characteristics compared with those for American Indians in the lower 48 states. We currently have ongoing work addressing the provision of federal funds to Alaska Native entities.



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arrangements with BIA. As a result, these tribes operated most of their own tribal functions and services under a funding compact agreement with BIA. By analyzing Single Audit Act data that shows funding provided by federal agencies, we determined that nearly all of the remaining 176 tribes operated many of their tribal functions and services under contracts or other agreements with BIA.

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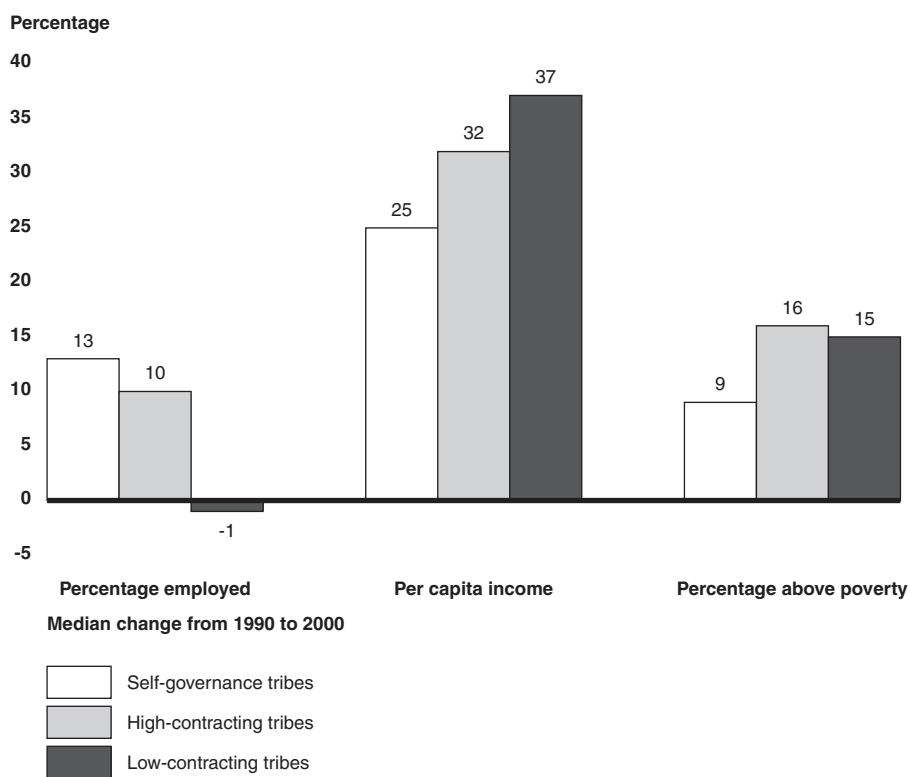
### High-Contracting Tribes Generally Experienced More Employment Growth, but Income Growth Compared with Other Tribes Was Mixed

Our analysis of the relationship between contracting and economic profile changes for Indian tribes showed that tribes that contracted more generally experienced greater employment growth than did tribes that contracted less. To identify the extent to which tribes were contracting, we grouped the 219 tribes in the lower 48 states with populations greater than 100 into three categories. The first category included the 43 tribes that had entered into self-governance compacts with BIA. Such tribes generally have assumed the operation of most of the services used by tribal members. For the remaining 176 tribes that were non-self-governance, we analyzed how much funding these tribes received from BIA contracts and grants from 1998 to 2000 in total and on a per capita basis. Based on these analyses, we categorized the 121 tribes with annual per capita BIA contract amounts exceeding \$580 and total annual BIA contracting amounts greater than \$300,000 as high-contracting tribes, and we, therefore, categorized the remaining 55 tribes whose per capita or total contracting amounts were less than these thresholds as low-contracting tribes.

To analyze the relationship between contracting and changes in tribal economic profiles, we compared how various indicators of economic well-being from Census Bureau data had changed for these three groups of tribes. Within each group, the changes in their economic indicators varied greatly, with some tribes experiencing significant improvement and others experiencing declines between 1990 and 2000 (see app. III, table 8 for complete data). As shown in figure 16 below, our analysis showed that high-contracting and self-governance tribes experienced higher growth on average in their employment levels than did tribes that contracted less. However, the high-contracting and self-governance tribes we analyzed did not, on average, experience greater growth in the income of the Native Americans living on their lands. As the figure also shows, high-contracting and self-governance tribes' per capita incomes did not grow faster than those of tribes contracting less. Additionally, these tribes did not experience greater improvement in the proportion of Native Americans living on their tribal lands with incomes above poverty level. As a result of the wide variability in our data, our statistical tests indicated that the

differences in income growth and proportion above poverty level shown below were not statistically meaningful.

**Figure 16: Median Change in Percentage Employed, Per Capita Income Level, and Percentage Above Poverty from 1990-2000**

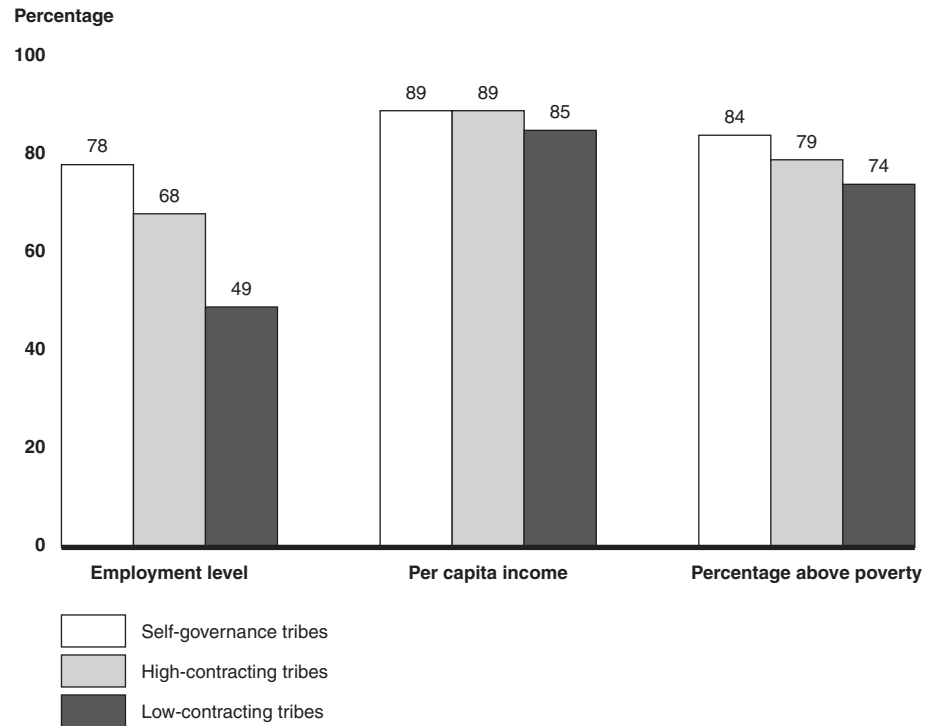


Sources: Employment data from Census. GAO categorical analysis based on data from Census, Single Audit Act, and BIA.

Note: Employment figures represent the change from 1990 to 2000 in the percentage of adults age 16+ employed. The median level in 2000 for the 43 self-governance tribes was 53 percent, for the 121 high-contracting tribes was 48 percent, and for the 55 low-contracting tribes was 43 percent. For the United States as a whole, the 2000 level was 60 percent.

Although their incomes did not grow faster on average than low-contracting tribes, the high-contracting and self-governance tribes in our analysis were less likely to experience declines in their income-related measures than the low-contracting tribes. As figure 17 shows, a greater proportion of the high-contracting and self-governance tribes experienced positive growth on both employment and income indicators over the 10-year period from 1990 to 2000.

**Figure 17: Percentage of Tribes with Positive Growth on Economic Indicators by Contracting Category, 1990-2000**



Sources: GAO analysis based on Census, Single Audit Act, and BIA data.

Note: Based on 43 self-governance, 121 high-contracting, and 55 low-contracting tribes.

### Tribes Making Greater Use of Federal Contracts and Grants Tended to Experience Less Income Growth

For many tribes, federal contracts and grants are the major funding source for tribal jobs and income. For example, of 53 tribes we contacted by telephone or during our site visits, 68 percent reported that tribal government, which is funded largely from federal sources, was the main source of jobs and income for tribal members. To examine further the relationship between level of contracting and economic indicators, we compared the total federal contracts and grants received by each tribe with the total income of Native Americans living in the tribal area. For this analysis, we identified the total average amount of federal grants and contracts the tribes in our analysis received annually in 1998, 1999, and 2000 from all federal agencies using the Single Audit Act database. We then found the total income of the tribe by multiplying the per capita income of

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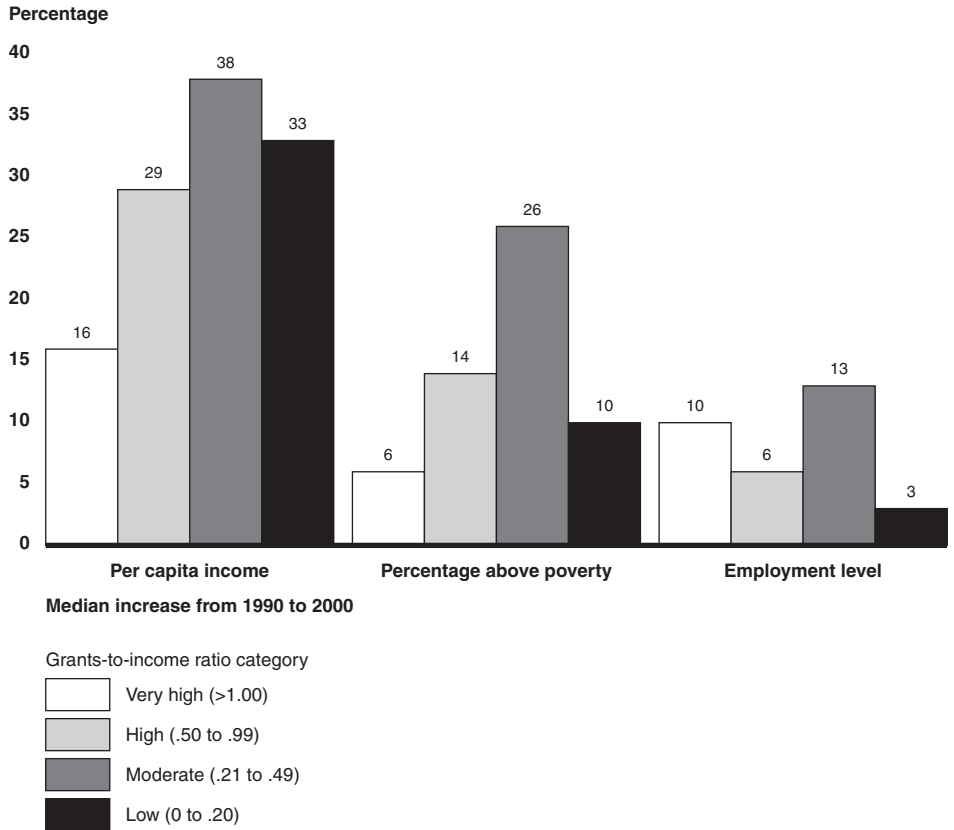
the tribe by the total number of Native Americans living in the tribal area.<sup>17</sup> Dividing the total federal funding for each tribe by this tribal income amount resulted in a grants-to-income ratio. We then classified each tribe in our analysis into four categories based on the level of this ratio.

By analyzing the results of these ratios across the 199 tribes in the lower 48 states for which data were available, we found that the tribes with a very high grants-to-income ratio experienced the least amount of improvement in their income growth on average (see app. III, table 9, for details). As the figure 18 below shows, tribes with a moderate or low grants-to-income ratio on average had more than double the growth in per capita income compared with tribes with a very high grants-to-income ratio. Differences in employment level were not statistically significant. Tribes with a moderate grants-to-income ratio—a balance of contracts/grants and other sources of income—showed the highest growth on economic indicators.

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<sup>17</sup>Appendix I describes in detail how we calculated this income amount.

**Figure 18: Percentage Change in Economic Indicators for Tribes by Grants-to-Income Ratio Category, 1990 to 2000**

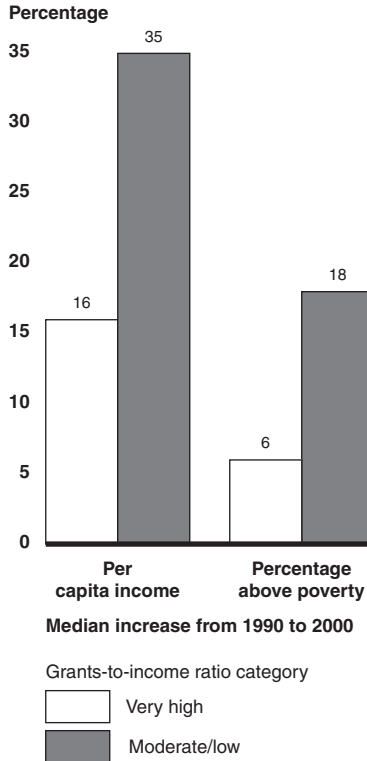


Sources: Single Audit Act data for federal grant totals, Census data for economic indicators, and Census and BIA data for tribal populations.

Note: Number of tribes by category: 26 very high, 52 high, 71 moderate, and 50 low.

Looking at the high-contracting and self-governance tribes, we found that over half had moderate or low grants-to-income ratios, indicating there were considerable sources of jobs and income for tribal members beyond those funded by federal grants and contracts. However, 15 percent (25 of 162) of the high-contracting and self-governance tribes had a very high grants-to-income ratio, and the economic growth for these tribes was relatively low. From 1990 to 2000, the moderate to low ratio group had a median per capita income growth more than double that of the very high ratio group. Also, the percentage above poverty for the moderate to low ratio group increased by 18 percent, compared with 6 percent for the very high ratio group (see fig. 19).

**Figure 19: Comparing Economic Indicators for Self-governance/High-Contracting Tribes by Grants-to-Income Ratio Category**



Sources: Single Audit Act data for federal grant totals, Census data for economic indicators, and Census and BIA data for tribal populations.

Note: Number of tribes per category: 25 very high, 89 moderate/low.

Many tribal officials we interviewed recognized that obtaining external sources of income was critical to their overall economic development. They reported that federal contracts and grants alone are insufficient to meet a tribe’s needs and raise tribal members out of poverty. Tribes reporting economic development success credited much of that success to the development of other sources of jobs and income.

**Tribes Report Other Advantages from Contracting**

Although the extent to which contracting tribes appeared to have experienced improvements in their economic profiles was mixed, tribal officials indicated that contracting with federal agencies provided other advantages but also some disadvantages. Officials at eight of the tribes we

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spoke with indicated their contracting activities provided them other benefits beyond improvement in their economic profile. Some tribal representatives and Indian Health Service officials told us that the experience of running a program helps develop specific skills, which can be carried over to other aspects of tribal activities. For example, an official at one tribe said that, as a result of operating their own services through contracting, their members have developed skills to produce accurate financial statements, helping them prove fiscal responsibility and attract additional grants. In addition, a 1991 academic report we reviewed on tribal activities found that tribes that entered into contracts to manage their own their forestry activities generally resulted in increased production and revenue than had been generated when such activities were under BIA management.<sup>18</sup> One academic who studies Indian issues told us that contracting also allows tribes to gain experience in leadership, management, accountability, and organization. He said that the resulting enhanced leadership and management skills help tribes to receive audits with unqualified opinions, which can allow these tribes to attract additional sources of funding.

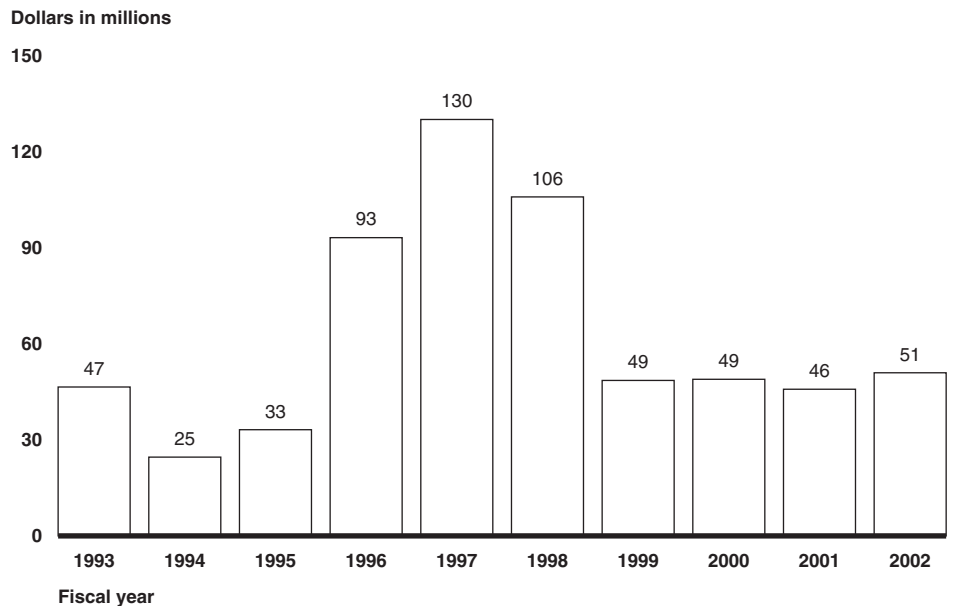
The advantages tribes gain from contracting can vary by the type of arrangement undertaken. Under self-governance arrangements, tribes have greater control and flexibility in the use of their funds and less reporting requirements. This flexibility allows tribes to design programs that are tailored to their needs and set their own priorities. For example, an official at one tribe that switched from multiple contracts to a self-governance arrangement said they received greater funding as a result to use as they saw best given their priorities. According to this official, the tribe was able to substantially increase their higher education program to provide more assistance to tribal members who wanted to go to college and also increase their funding for natural resource services. In regard to regular contracting arrangements, one tribe told us that the skill sets learned through this process are a stepping stone to undertaking self-governance, which is the next phase of self-determination.

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<sup>18</sup>Matthew B. Krepps, *Can Tribes Manage Their Own Resources? A Study of American Indian Forestry and the 638 Program*, Harvard University, (Cambridge, MA, 1991). This study analyzed data from a nationwide sample of 75 tribes with forestry resources and the results produced by tribes that entered into self-determination contracts to oversee the management of forestry resources versus nonparticipating tribes with BIA management of forestry operations.

However, a primary disadvantage to contracting with federal agencies was the shortfalls in contract funding. Several tribal officials told us that the amount of direct program funding they receive when they contract to administer their own programs is not sufficient to provide the adequate level of service to tribal members. In addition, several tribal officials told us that their contract programs do not receive full funding to cover the indirect, support, or start-up costs that tribes incur as part of managing these contracts. These contract support cost shortfalls arise when funding appropriations for these contracts is less than that required by tribes to pay for such costs. As shown in figure 20, BIA and the Indian Health Service estimate that total administrative funding shortfalls arising from the contracts these agencies funded during fiscal years 1993 through 2002 ranged from a low of about \$25 million to as much as \$130 million annually.

**Figure 20: Shortfalls in Contrast Support Funding for BIA and Indian Health Service, Fiscal Years 1993-2002**



Sources: GAO analysis of Indian Health Service and BIA data.

Note: Amounts adjusted to 2002 constant dollars using the Bureau of Labor Statistics Consumer Price Index.

The funding shortfalls associated with contracting arrangements can hamper tribes' ability to develop economically. Our 1999 report on the



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shortfalls in Indian contract support costs found that tribes have had to cover the shortfalls with tribal resources, thereby foregoing the opportunity to use those resources to promote economic development.<sup>19</sup> In addition, these shortfalls divert money away from other important tribal activities. For example, tribes may not receive enough money to enhance the management of their programs by establishing educational systems for leaders, instituting constitutional reform, and developing strategies for economic development. Several tribes mentioned that they have had to take steps to subsidize contract programs, which includes using tribal funds earmarked for economic development, returning the management of the program to the federal government, and undertaking supplemental programs of their own to fill in the unmet service gaps. According to three tribal officials, the threat of, or actual funding shortfalls, discouraged their tribes from entering into or continuing contracting arrangements with the federal government.

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### Multiple Factors Affect Economic Development Efforts of Indian Tribes and Tribal Consortia

In addition to the extent to which tribes are contracting to perform their own services, other factors can significantly influence the degree to which Indian tribes' efforts to develop economically are successful. According to the tribal and federal officials we interviewed and the various studies of Indian economic development issues that we reviewed, the location of a tribe's reservations or lands can greatly affect its economic development success. For example, tribal officials whose reservation was located near an urban area told us that this gives them greater access to existing infrastructure, including water and power. In addition, the close proximity of the urban population provides them with a greater potential market for their tribal enterprises. Another tribe whose lands were located near an urban area and a heavily traveled highway has benefited from the already established water sewer systems and power lines for development projects. Because of its highly visible location, this particular tribe has successfully developed a hotel, arts and cultural center, golf course, grocery store, and gaming facility.

Tribes located in more remote, rural areas lack such advantages. Tribal officials told us they may have to first develop infrastructure before they can then invest in development projects. According to tribal officials, this can be complicated by the need to conduct more extensive environmental

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<sup>19</sup>See GAO, *Indian Self-Determination Act: Shortfalls in Indian Contract Support Costs Need to Be Addressed*, GAO/RCED-99-150 (Washington, D.C.: June 30, 1999).

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or archeological surveys before land can be developed. For example, officials for one tribe in an isolated area told us that they had to complete land and environmental surveys and have water sewer systems, electric power, and roads built as a prerequisite to development. In addition, Native officials we talked to in Alaska also noted how the isolation of their villages greatly complicates their development efforts.

Another factor related to location that can assist a tribe economically is whether or not their tribal lands can be developed for tourism. For example, some tribes in the Pacific Northwest were able to build campgrounds and marinas that attracted visitors interested in recreation. A tribe we visited in the Southwest had scenic natural rock formations that attracted visitors to their tribal lands. However, one village in Alaska that would like to build a visitor center to attract tourists is located in an area that is difficult to reach and faces less certain prospects for developing such an industry.

Another factor that can provide tribes with an advantage in economic development is whether or not they have access or ownership to exploitable natural resources. We found tribes with access to timber or fisheries often were able to develop these as significant sources of income for their tribal members. For example, one of the tribes we talked to with forest lands on their reservation had opened a successful plant producing plywood and dry veneer, which created jobs for tribal members. In contrast, some tribes are located in remote desolate areas with little vegetation or natural resources they can exploit.

Another factor that can affect tribal economic success is having sound legal systems and commercial regulations. Because Indian tribes are considered sovereign nations within the United States, they must develop their own judicial system and laws for governing operations and business conduct within their tribal lands. Having an effective judicial system is frequently seen as a prerequisite for attracting private investments on tribal lands. This provides investors with confidence that disputes will be resolved fairly. For example, one expert study examined 67 tribes and found that a strong independent judicial system reduces unemployment by 5 percent.<sup>20</sup> Another study states that tribal success can also be facilitated by sound

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<sup>20</sup>Miriam Jorgensen, and Jonathan B. Taylor, *What Determines Indian Economic Success? Evidence from Tribal and Individual Indian Enterprises*, Harvard Project on American Indian Economic Development, Harvard University, (Cambridge, MA, 2000).

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uniform commercial codes.<sup>21</sup> According to tribal officials, an additional challenge is having sufficient numbers of tribal members with the relevant law and graduate degrees to help develop and administer these codes.

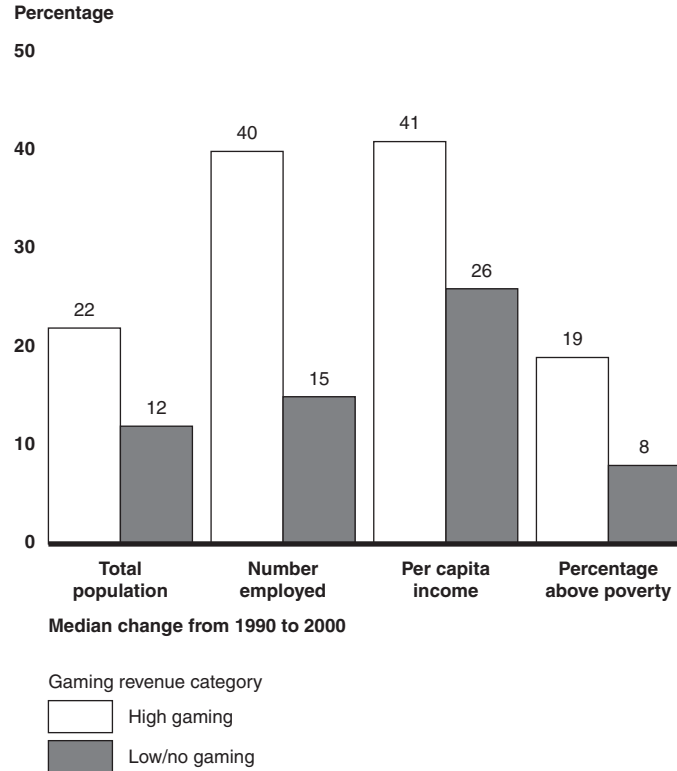
According to tribal officials and studies, another factor cited as important for economic development was stable and effective tribal government. For example, some tribal officials we spoke with cited the high turnover among the members of their governing councils often resulted in abrupt shifts in economic priorities that sometimes delayed their ability to seek funding or implement previously planned projects. According to EDA officials, some tribes' governing councils are completely replaced very frequently, and this greatly reduces their effectiveness in achieving economic progress. According to tribal officials, one effective method was to stagger tribal council members' terms over time, which increases the continuity of the tribal government and its policies.

Tribes' ability to develop gaming facilities can also be a significant factor that can affect their economic development. Tribes that own gaming facilities near concentrated population centers have been able to use gaming revenues to develop other projects that have aided their tribes and produced income. For example, one particular tribe used its gaming revenues to develop a water sewer system for development projects and helped it withstand reduced federal and state funding for its activities. Another tribe told us gaming revenue is used for supplementing education and health programs. As shown in figure 21, tribes with greater amounts of revenue from gaming generally experienced greater growth in their total populations, employment rates, per capita income, and in the percentage with incomes above the poverty level.

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<sup>21</sup>Stephan Cornell and Joseph P. Kalt, *What Can Tribes Do? Strategies and Institutions in American Indian Economic Development*, University of California, (Berkeley, CA 1992).

**Figure 21: Median Percentage Changes in Economic Indicators for Tribes by Level of Gaming Revenues**



Sources: GAO analysis of National Indian Gaming Commission data and Census data.

Note: We defined high gaming revenue tribes as tribes with gross gaming revenues exceeding \$10 million in 1998 (n=77). We defined low/no gaming tribes as tribes with less than \$3 million in gross gaming revenues in 1998 (n=67). Tribes with \$3 million to \$10 million in gaming revenues and tribes for which comparable data on gaming revenues was not available were omitted from this analysis.

## Observations

Efforts to improve the financial well-being of American Indians and Alaska Natives face many challenges. These challenges can include the isolated and rural locations of tribal lands and lack of infrastructure, which can limit their attractiveness to private sector investment. Tribal lands may also lack exploitable resources, such as oil or timber, or natural features that could serve as a draw for tourism. Although EDA has provided limited funding to assist some tribes, we found that these grants had resulted in mixed success in helping develop the economies and improve the quality of life for these groups. In cases in which EDA grants were more successful in

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producing economic development, the tribes sometimes had advantages, such as resources or proximity to areas with populations likely to take advantage of gaming or other development. In other cases, EDA provided funding to tribes without such advantages and at least produced some jobs for tribal members.

Overall, we found that the relationship of Indian economic development to EDA grants was mixed, and these findings could help inform decisions about how and where to focus future efforts. However, EDA's grants to tribes represents only 3 percent of the total amount of funding that it awarded between 1993 and 2002. As a result, we were neither able to evaluate the overall effectiveness of EDA's program nor were we able to evaluate the adequacy of how it administers its grants, including how the agency applies its criteria in determining what activities to fund.

Beyond government aid, Indian tribes are also taking steps to increase their role in their own governance and community activities. Through contracting arrangements and self-governance, nearly all tribes are assuming the management of programs and services that federal agencies previously provided to their communities. Although we found that tribes with the highest levels of these contracting activities generally saw greater improvements in employment levels, we did not find a relationship between level of contracting and tribal individual's incomes. However, we did learn that tribes conducting such contracting find that it provides other benefits to their communities, including providing them with experience in administering their own affairs. In addition, the other factors that make improving economic development for tribes challenging, such as availability of resources or attractiveness to private sector investment, may have proven to be greater determinants to tribe's overall economic well-being regardless of any benefits resulting from their contracting activities.

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## Agency Comments and Our Evaluation

We requested and obtained comments from the Department of Commerce, which provided EDA's comments, and the Department of the Interior, which provided BIA's comments; these agencies written comments are reproduced in appendixes IV and V, respectively. The letter from the Department of the Interior's Assistant Secretary for Policy, Management, and Budget stated that BIA generally agreed with our report's conclusions. The letter notes that BIA supports increased self-determination contracting and compacting as a means of improving tribal economic development

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efforts, but notes, as our report does, that other factors can significantly influence the ability to develop tribal economies successfully.

In the letter from the Secretary of Commerce, EDA questioned our characterization that EDA grants have had mixed success. EDA acknowledged that its enterprise development investments had mixed success given the EDA investments we reviewed and evaluated and agreed that a large portion of EDA funds went to enterprise development projects. EDA stated that the success of other types of EDA investments should be considered in order to make a broad statement about the economic development generated by EDA grants as a whole. The letter stated that the other grant funding that EDA provided, including those for infrastructure, business development, and planning has produced benefits.

After considering our findings for all EDA grants to tribes between 1993 and 2002, we believe that our conclusion that EDA grants have had mixed success is accurate. The grants for enterprise projects represent the largest portion—almost half—of the funding EDA provided to tribes during this period and these grants, as our report shows, have had mixed success in producing economic development. The other half of the total funding EDA provided to tribes during this 10-year period included grants for business development loan funds and training, infrastructure projects, and planning. Regarding business development activities, our review of the grants that funded RLFs indicated that some were reportedly very successful, and others had yet to produce much development. Similarly, the training projects had produced some benefits but were also hampered by lack of operating funding. Although our report presents information from tribal officials that indicates that many infrastructure grants have reportedly produced economic development, we found that not all projects had yet done so. In addition, although the tribes receiving EDA planning grants reported them to be critical to their success, the benefits we reported as resulting from these planning grants were that most tribes that received them also received other EDA grants, including for enterprise projects whose mixed success we discussed, or funding from other federal agencies for economic development purposes. In addition, not all EDA planning grants led to development projects as the result of lack of funding or other issues. Similarly, the EDA funding for feasibility studies indicated that, at the time of our review, 3 of the 17 projects studied had been implemented successfully.

Commerce's letter also provides some technical comments for which we made changes to our draft. The letter also presented other comments that

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provide additional detail about EDA grants and their administration. Our responses to these comments are presented in appendix IV.

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We are sending copies of this report to the Ranking Minority Member of the Senate Committee on Indian Affairs; the Secretary, Department of Commerce; the Secretary, Department of the Interior; and other interested parties. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact Mr. Cody Goebel or me at (202) 512-8678 or [goebelc@gao.gov](mailto:goebelc@gao.gov) or [shearw@gao.gov](mailto:shearw@gao.gov). GAO staff that made major contributions to this report are shown in appendix VI.

Sincerely yours,



William B. Shear  
Director, Financial Markets  
and Community Investment

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# Scope and Methodology

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To review all grant funds made available to Indian tribes and tribal organizations by the Department of Commerce's Economic Development Administration (EDA), we analyzed data from EDA on all grants awarded to tribes during the years 1993 to 2002. For each grant, we obtained from EDA's data the following information:

- grant recipient name,
- state where the grant recipient is located,
- fiscal year the grant was awarded,
- grant amount, and
- general project description.

The data EDA provided categorized its grants according to the various funding programs the agency administers, such as its planning, public works, or economic adjustment programs. However, upon review of these data, we found that EDA used funds from these various programs to provide grants for similar types of projects. For example, EDA was sometimes providing grants to fund the planning of a project or the construction of the project using its economic adjustment grant program or its public works grant program. Therefore, for the purposes of our analysis, we grouped the various grants into the following categories according to type of project or activity funded:

- *Enterprise projects*: grants used to develop projects designed to generate income for the tribe, such as a cannery, a resort, or a sawmill;
- *Infrastructure projects*: grants used for the design and construction of public works infrastructure, such as roads, highways, and sewers, that would serve as the foundation for general economic development activities;
- *Business development projects*: grants used to fund loan funds, training, and other business development projects, including those for business incubators, revolving loan funds (RLFs), training and capacity building, and other assistance that enhances the tribes' economic development activities; and



- *Planning/feasibility grants*: grants used for general planning purposes such as paying for staff salaries or the broad administration of the tribes' planning departments, as well as for developing plans, analyses of projects' environmental impact, and feasibility studies for specific economic development projects.

Our analysis of EDA grants was limited to grants provided to Indian tribes. Therefore, we were not able to evaluate how EDA generally applies its stated criteria to grant applications. In addition, the application process includes an evaluation by EDA's regional investment review committees of preapplication proposals and recommending whether or not an application should be invited. We did not analyze EDA's preapplication process.

To determine what economic development activities have resulted from these EDA grants, we surveyed all 95 tribes that received EDA grants for enterprise projects, infrastructure projects, and loan funds, business development, and training activities.<sup>1</sup> We made 15 site visits in Alaska, Arizona, California, New Mexico, and Washington to learn more about these tribes' economic development projects and observe the results of the EDA grants they received during the years 1993 to 2002. We chose tribes for our site visits based on various factors, including the types of economic development projects the tribes had, the tribes' location, and the projects' stage at the time of our visit. We surveyed the remaining 80 tribes and organizations by phone, interviewing tribal officials that were cognizant of the tribes' economic development projects and activities. Our survey results reflect the information provided by and the opinions of tribal officials who participated in our survey. Outside of obtaining documents from some tribes and visiting some projects, we did not independently verify the tribal officials' responses to our questions. We also interviewed relevant officials from EDA, the Bureau of Indian Affairs, and the Department of Health and Human Services to get their perspective on federal assistance to tribes.

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<sup>1</sup>We decided not to include in our survey those tribes that received only planning grants since we wanted to examine EDA grants that directly resulted in tangible economic development activities. However, if a tribe received an enterprise, infrastructure, or a business development grant and also received a planning grant from EDA, we asked tribal officials about the results of their planning grants as well.

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## Methodology for Analyzing Relationship between Contracting and Economic Profile

To determine whether there exists a relationship between the degree to which an Indian tribe operates federal programs and services under contracting or self-governance and that tribe's economic profile, we used data from the Department of the Interior's Bureau of Indian Affairs (BIA), the U.S. Census Bureau, and the Single Audit Act database to group all tribes we analyzed into three separate groups. First, we used BIA data to identify those tribes that had entered into self-governance compacts.<sup>2</sup> We then grouped non-self-governance tribes into two groups based on the extent to which they were contracting with BIA. We grouped tribes into these two groups based on the extent to which they were contracting on both a per capita basis and on a total dollar amount basis. To derive the per capita BIA grants and contracts amount, we obtained data from the Single Audit Act database on the amount of grants and contracts that were received by tribes from BIA during the years 1998 to 2000.<sup>3</sup> For those tribes that did not have available Single Audit Act information, we calculated this per capita measure based on BIA's 1998 shortfall budget data.<sup>4</sup>

An examination of the listing of tribes ranked by their per capita contract amount, tribes above a threshold of \$580 appeared to include those large tribes with the largest overall contract amounts. We found that some smaller tribes had per capita contracting amounts that exceeded \$580 but whose total contract amount was not significant compared with other tribes. Therefore, we only placed tribes into the high-contracting group whose totals in total contract funding exceeded \$300,000, which appeared to be a reasonable level to indicate significant contracting activity. Table 2 summarizes our criteria for classifying tribes.

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<sup>2</sup>Self-governance tribes are those that have entered into a contractual arrangement between the tribe and BIA and/or Indian Health Service. Under these self-governance compacts, tribes receive a single amount of funding to assume the management of one or more services previously provided for them by these agencies. Self-governance tribes have greater control and flexibility in the use of these funds and reduced reporting requirements compared to self-determination contracting done under Pub. L. No. 93-638.

<sup>3</sup>The Single Audit Act database contains data from 1997 to the present. We analyzed data from 1998 to 2000 because data for these years were more complete than data for the other years.

<sup>4</sup>1998 was the latest year that BIA had their shortfall budget broken down by tribe.

**Table 2: GAO Criteria for Classifying Tribes by Extent of Contracting**

Category of tribe	Per capita contracting amount	Total contracting amount	Number of tribes in category
Self-governance	Not used	<b>Not used</b>	43
High-contracting	Greater than \$580 and	<b>Greater than \$300,000</b>	121
Low-contracting	Less than \$580 or	<b>Less than \$300,000</b>	55

Sources: GAO analysis based on Census, Single Audit Act, and BIA data.

We then compared the change in the economic profiles for each of these three groups of tribes. To measure each tribe’s economic profile, we collected data from the U.S. Census from 1990 and 2000. For this analysis, we only included those tribes in the lower 48 states that are federally recognized, had available 2000 Census data, and had tribal population of 100 people or more based on population data from the 2000 Census. For each tribe, we obtained economic profile data on Native Americans living on tribal land, including the percentage employed, the per capita income, and the percentage in households with incomes above the poverty level. Our economic profile data categorized by self-governance, high-contracting, and low-contracting tribes is descriptive in nature and does not represent an assessment of causation of economic factors based on governing status or high- or low-contracting category.

### Methodology for Analyzing Relationship between Federal Aid and Economic Profile

To supplement our analysis of contracting and economic profile changes, we also analyzed the relationship between the extent to which tribes received federal funding and changes in economic profile indicators. For this analysis, we identified the total average amount of federal grants and contracts the tribes in our analysis received annually in 1998, 1999, and 2000 from all federal agencies.<sup>5</sup> We then found the total income by multiplying the per capita income of the tribe by the total number of Native

<sup>5</sup>We derived these federal grants and contracts data from the Single Audit Act database.

Americans living on the reservation.<sup>6</sup> Dividing the total federal funding for each tribe by its tribal income resulted in a grants-to-income ratio (GTI). We then classified each tribe in our analysis into four categories based on the level of their GTI, as shown in table 3.

**Table 3: GAO Categories for Tribes by Level of GTI**

<b>Category</b>	<b>GTI level</b>	<b>Explanation of category</b>
Very high	Over 1.0	Amount of federal grants and contracts received exceeds total tribal income.
High	Between .50 and .99	Amount of federal grants and contracts received represent considerable share of tribal income.
Moderate	Between .20 and .49	Tribe has developed significant sources of revenue other than federal grants and contracts.
Low	Below .20	Federal grants and contracts represent small portion of tribal income.

Sources: GAO analysis of based on Census, Single Audit Act, and BIA data.

We then analyzed the extent to which changes in tribal economic profile indicators varied for the tribes in these four GTI categories. Our economic profile data categorized by grant to income ratio is descriptive in nature and does not represent an assessment of causation of economic factors based on the tribe's GTI ratio.

<sup>6</sup>We derived each tribe's per capita income and total number of Native Americans living on its the reservation from the 2000 Census. We then adjusted the total number of Native Americans living in the reservation by using BIA numbers for the total number of Native Americans living in the service area as reported in BIA's 2001 *American Indian Population and Labor Force Information*. Many of the grants and contracts (e.g., BIA contracts for road maintenance, law enforcement, fire protection) are reservation based, while other contracts (e.g., for social services) are based on the number of Native Americans in the service area. Some reservations are small, but many Indians live in the surrounding service area. Other reservations are more isolated, and most of the Indians in the service area live on the reservation. We used the following method to weight the population toward that on the reservation while adjusting it for the service area population: We multiplied the reservation population by 2, added the service area population, and then divided by 3. (Thus, if a tribe's reservation population was 500 and total service area population—including the reservation—was 1,000, then the adjusted population would be 667.)

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## Steps Performed to Ensure Data Reliability

To ensure that EDA's data on the grants awarded to tribes and the data we used in our analysis of the tribes' economic profiles were sufficiently reliable for our analyses, we conducted detailed reliability assessments of the four datasets that we used. In assessing the reliability of EDA's grants data, the Single Audit Act data, U.S. Census Bureau data, and the BIA population data, we reviewed relevant documentation, interviewed knowledgeable officials, and conducted frequency analysis of critical data fields, as appropriate. We restricted these assessments to the specific variables that were pertinent to our analyses. We found that all of the datasets were sufficiently reliable for use in our analyses but have included known limitations in our report when appropriate.

In assessing the reliability of EDA's grants data, we interviewed EDA officials that were knowledgeable about the data system and reviewed relevant documents, such as EDA's data manual and documents on internal controls. On the basis of the information we gathered, we concluded that EDA's grants data were reliable for our purposes for this analysis.

Our reliability assessment of the Single Audit Act data included two steps. First, to assess the general reliability of the Single Audit Act data we used in our analysis, we reviewed relevant documents (e.g., online information on the database, a report by the Department of Commerce's Office of the Inspector General), as well as corresponded with a knowledgeable official from the U.S. Census Bureau, about the Single Audit Act data. On the basis of these document reviews and correspondence, we concluded that the data we used in our analysis were reliable for our purposes for this analysis. Second, to assess the completeness and accuracy of the Single Audit Act data we used in our analysis, we conducted frequency analysis of relevant fields. On the basis of the results of our frequency tests of relevant data elements and our review of pertinent documents, we concluded that the Single Audit Act data we used in our analysis were reliable for our purposes for this analysis.

In assessing the reliability of relevant 1990 and 2000 decennial U.S. Census Bureau data, we reviewed information available online from the U.S. Census Bureau Web site on its data quality assurance processes and interviewed relevant officials from Census. On the basis of the results of our document review and discussions with Census officials, we concluded that the relevant Census data we used were reliable for our purposes for this analysis.

In assessing the reliability of the BIA's population data, we interviewed knowledgeable officials from BIA and tribal representatives and reviewed relevant documentation. Based on the results of these discussions with relevant officials and review of pertinent documentation, we concluded that the BIA's population data were reliable for our purposes for this analysis.

We also reviewed EDA policies and regulations and talked to EDA Regional Directors and field staff to determine if EDA complies with its legislative criteria for monitoring grants.<sup>7</sup>

We interviewed tribal officials and economic development experts and reviewed studies by the Harvard Project on American Indian Economic Development and the National Congress of American Indians to determine what other factors impact tribes' economic development efforts.

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<sup>7</sup>The Economic Development Administration and Appalachian Regional Development Reform Act of 1998, Pub. L. No. 105-393, Nov. 13, 1998.

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# Additional Information on EDA Grants to Tribes

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We obtained data from the Economic Development Administration (EDA) that included all grants it made to American Indian tribes during the years 1993 to 2002. Our analysis of this data indicated that 143 Indian tribes and tribal organizations received a total of \$112 million in EDA grants during this 10-year period. Of the \$112 million in total grants to tribes that EDA awarded between 1993 and 2002, \$86 million went to 113 Indian tribes and tribal organizations in the lower 48 states.

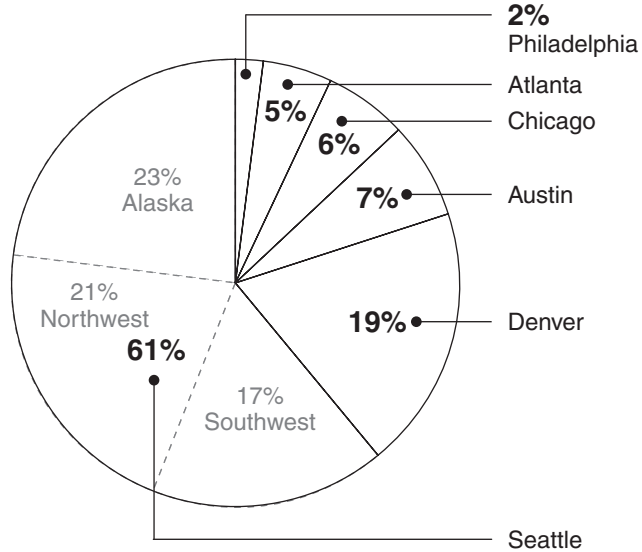
The extent to which EDA funded tribes varied across geographic regions. Operating nationally, EDA has organized its staff into six regional offices that cover the various states. These offices are in Atlanta, Austin, Chicago, Denver, Philadelphia, and Seattle.<sup>1</sup> For the purposes of our analysis, we divided EDA's Seattle region into three subareas: (1) Alaska; (2) the Northwest covering Idaho, Oregon, and Washington; and (3) the Southwest covering Arizona, California, and Nevada. By analyzing EDA's funding across these regions as shown in figure 22, we found that about 60 percent of EDA grants to Indian tribes went to tribes in the Seattle region, with tribes in the Northwest receiving 21 percent of the grant monies awarded by EDA during the 10-year period.

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<sup>1</sup>The Atlanta Region consists of Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee. The Denver Region consists of Colorado, Iowa, Kansas, Missouri, Montana, North Dakota, Nebraska, South Dakota, Utah, and Wyoming. The Austin Region consists of Arkansas, Louisiana, New Mexico, Oklahoma, and Texas. The Philadelphia Region consists of Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia. The Chicago Region consists of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin. For the purposes of our analysis of EDA grants by EDA regions, we analyzed Native entities in Alaska (which are technically included in the Seattle EDA region) separately. We further broke the Seattle EDA Region states into two groups: Seattle (NW or Northwest), which included Idaho, Oregon, and Washington, and Seattle (SW or Southwest), which included Arizona, California, and Nevada.

**Appendix II  
Additional Information on EDA Grants to  
Tribes**

**Figure 22: EDA Grants to Tribes and Organizations by Region, 1993-2002, as Percentage of Total EDA Grants to Tribes and Organizations**



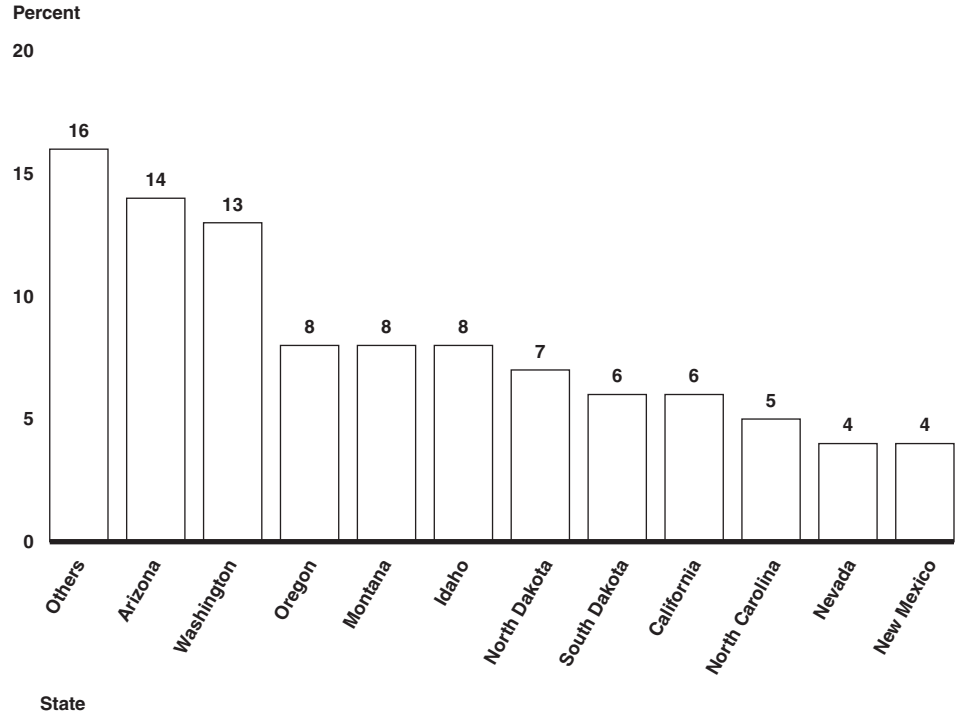
Source: GAO analysis of EDA data.

In addition to funding provided to Native entities in Alaska, the extent to which tribes in other states received EDA funding also varied. For example, as shown in figure 23, tribes in Arizona, Washington, and Oregon received about 35 percent of all EDA grants to tribes in the lower 48 states during the years 1993 to 2002.



**Appendix II  
Additional Information on EDA Grants to  
Tribes**

**Figure 23: Percentage of EDA Grants to Tribes in the Lower 48 States, 1993-2002, by State**



Source: GAO analysis of EDA data.

Note: "Other States" includes tribes in Colorado, Florida, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Nebraska, New York, Oklahoma, Utah, Wisconsin, and Wyoming.

Our analysis found that 30 of the 42 federally recognized tribes in Idaho, Oregon, and Washington received EDA grants, as shown in figure 24. In contrast, only 3 of the 37 tribes in Oklahoma received such grants. According to EDA officials, they funded few tribes in Oklahoma because entities in other states in EDA's Austin Region, which also includes Texas, Louisiana and Arkansas; and New Mexico, were deemed more economically distressed and in greater need of EDA assistance.



**Appendix II**  
**Additional Information on EDA Grants to Tribes**

states received large dollar amounts of funding, the amounts were not always large given the large Indian populations in their states. For example, although Arizona received over \$10 million during this 10-year period, this amounted to only \$46 per capita because of its large Indian population. Table 4 and figure 26 show how these amounts varied across states.

**Table 4: EDA Grants to Tribes Ranked by Per Capita Amounts, by State, Over 10-Year Period, 1993-2002**

<b>States</b>	<b>Total EDA grants</b>	<b>Population of tribes with available data</b>	<b>Per capita EDA grant</b>
Massachusetts	\$100,000	60	\$1,667
Oregon	6,376,250	5,458	1,168
Florida	1,331,000	1,375	968
Idaho	5,908,980	6,964	849
Maine	1,082,000	1,412	766
North Carolina	4,105,000	5,832	704
Colorado	1,991,000	3,073	648
Nevada	3,365,000	7,206	467
Washington	10,382,567	25,828	402
California	4,372,800	14,499	302
New York	1,279,125	4,454	287
North Dakota	5,133,500	20,555	250
Michigan	959,000	3,891	246
Montana	5,960,789	35,698	167
Wisconsin	2,108,863	13,446	157
Minnesota	1,952,250	16,358	119
South Dakota	4,594,800	38,511	119
Nebraska	515,000	4,867	106
Wyoming	602,762	6,394	94
New Mexico	3,246,600	37,836	86
Mississippi	312,000	4,108	76
Arizona	10,915,573	236,364	46
Utah	13,500	3,178	4
Oklahoma	395,000	230,983	2
Other states	\$0	5,962	\$0

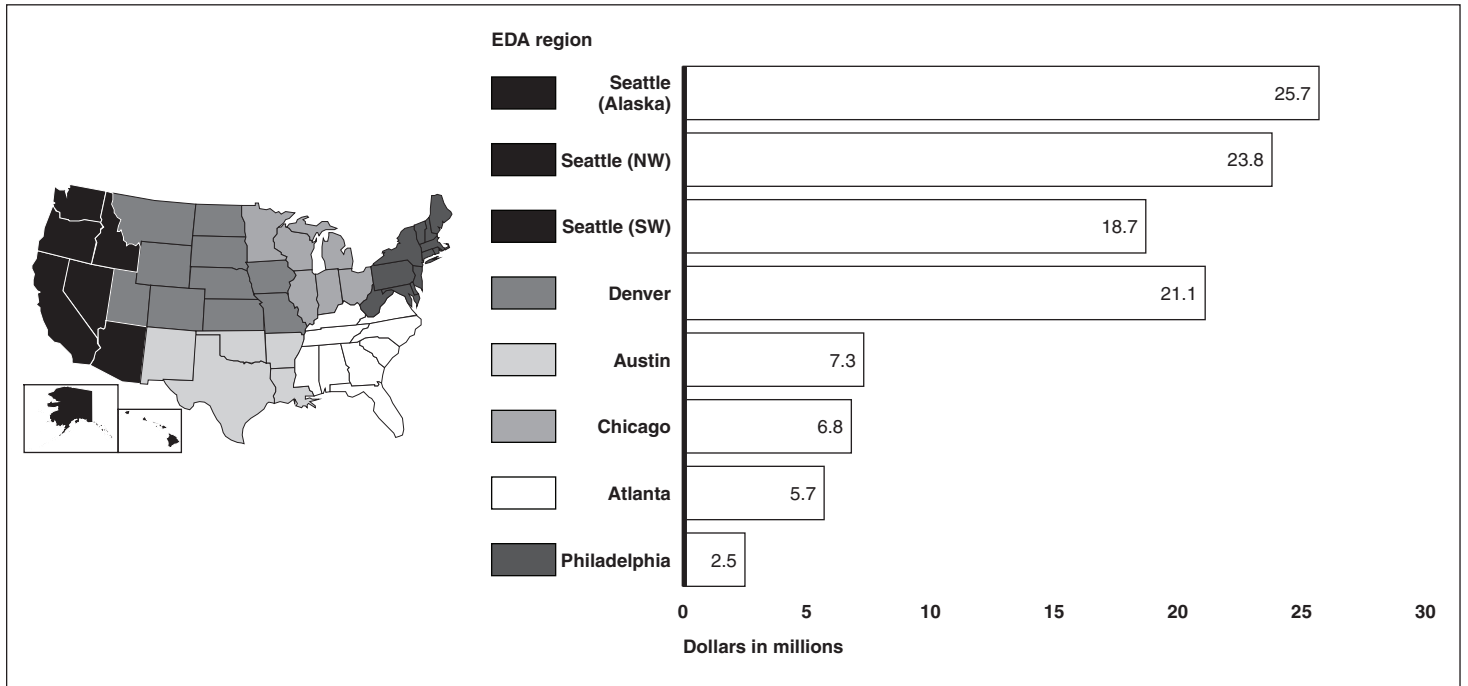
Sources: GAO analysis of EDA, 2000 Census data, and the *Federal Register's* list of federally recognized tribes.

Note: "Other States" includes: Alabama, Connecticut, Iowa, Kansas, Louisiana, Rhode Island, South Carolina, and Texas.

**Appendix II  
Additional Information on EDA Grants to  
Tribes**

As shown in figure 25, the total amount of EDA grants awarded also varied considerably by region.

**Figure 25: Total EDA Grants to Tribes and Tribal Organizations, 1993-2002, by EDA Region**

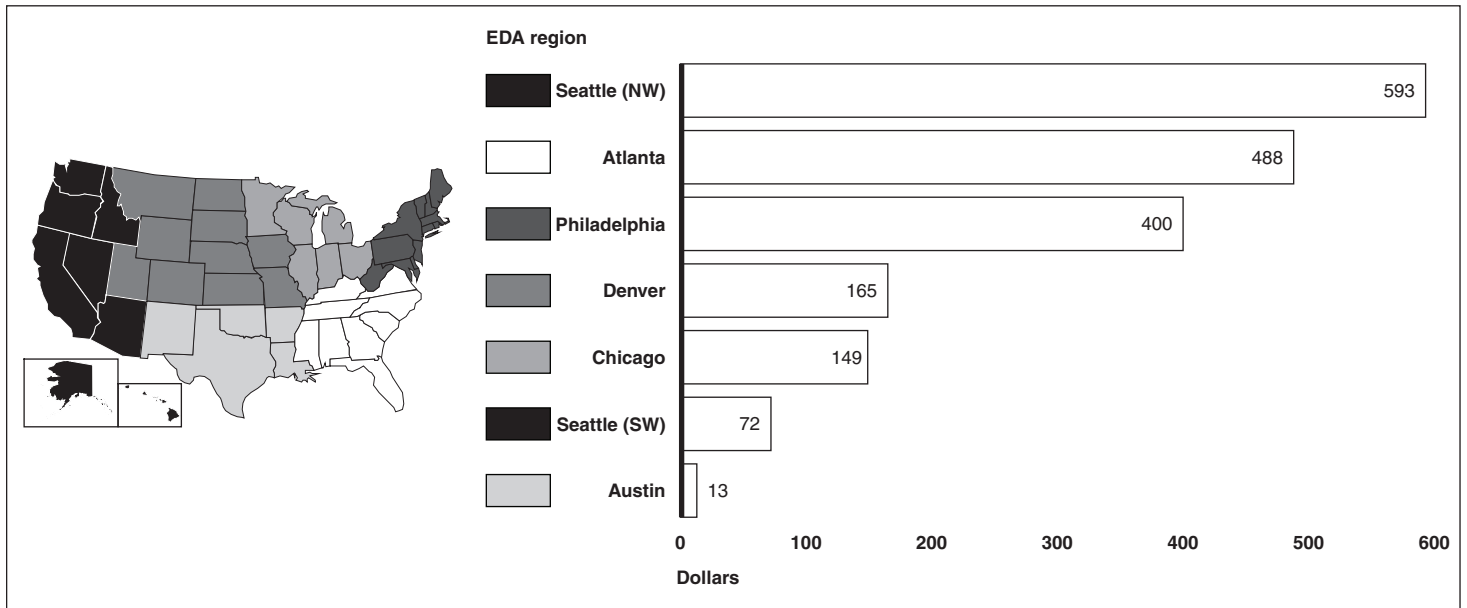


Source: EDA data.

Similarly, as figure 26 shows, EDA grants also varied considerably by region on a per capita basis.

**Appendix II**  
**Additional Information on EDA Grants to Tribes**

**Figure 26: Per Capita EDA Grants to Tribes in Lower 48 States, 1993-2002, by EDA Region**

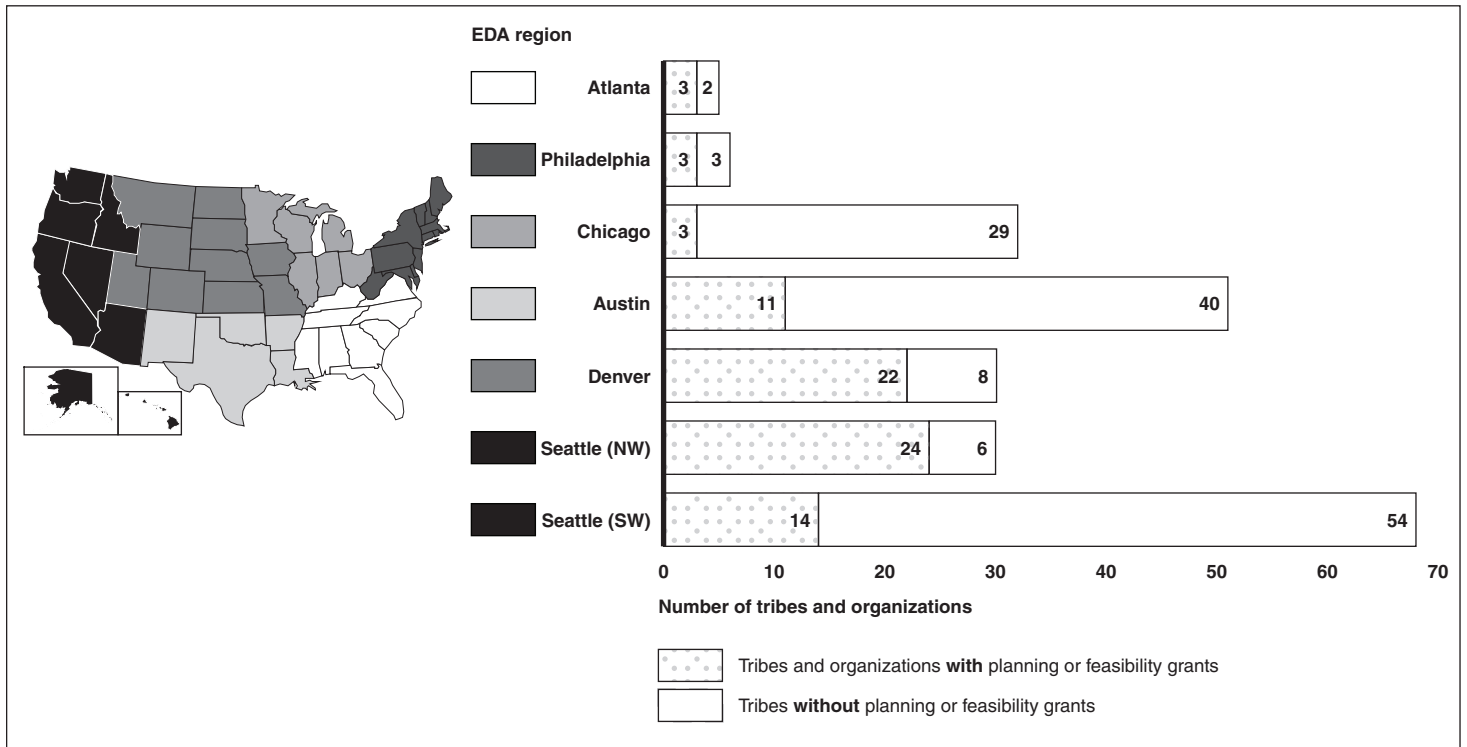


Source: EDA data.

The extent to which tribes received EDA planning grants also varied greatly by EDA region. For example, EDA's Chicago Region did not provide any of the 29 tribes located in that region with individual planning grants, although it did provide planning grants to three intertribal organizations in that region that represented several individual tribes joining together to receive a grant. By contrast, 79 percent of the tribes in the Pacific Northwest with a population over 100 as well as two intertribal organizations received planning grants (see fig. 27). Demand for planning grants can sometimes exceed the amount of available funding in some regions. For example, officials in EDA's Seattle Region told us that they have a waiting list of 36 tribes that would like to obtain EDA planning grants but insufficient funds exist to award these grants.

**Appendix II  
Additional Information on EDA Grants to  
Tribes**

**Figure 27: Extent to Which Tribes Receive EDA Planning Grants by Regions, 1993-2002**



Source: EDA data.

Note: Bar graph includes tribes in the lower 48 states with 100 or more Indians residing on the reservation. For purposes of this analysis we have excluded tribes with populations under 100 and Alaska Native entities. Seattle (NW) includes tribes in Washington, Oregon, and Idaho. Seattle (SW) includes tribes in California, Nevada, and Arizona.

EDA grants appeared to be awarded equally to tribes with differing levels of income. Using Census data for 2000, we ranked the tribes in the lower 48 states by per capita income. By comparing the tribes ranked by income with the amounts tribes received from EDA, we found that tribes in the top 25 percent of per capita income had received 28 percent of the grants EDA awarded to tribes in the lower 48 states between 1993 and 2002. Similarly, the tribes in the bottom 25 percent of per capita income had received 30 percent of the total amount EDA awarded to tribes during this period.

**EDA Not the Largest  
Provider of Grants to Tribes**

EDA has not been the largest source of funding for economic development grants for tribes. To analyze how the total EDA grants to tribes compared

with other economic development-related grants received by tribes from other federal agencies, we obtained data from the Single Audit Act database, which is maintained by the Bureau of the Census and contains information on the amounts of federal funding received by states, governments, and nonprofit organizations, including Indian tribes.<sup>2</sup> With the data available for 1998 to 2001, we found that 7 percent of all economic development-related grants annually received on average by tribes during these years were from EDA. The remaining 93 percent of the economic development-related grants tribes received came from other federal agencies, including

- the Department of Housing and Urban Development, which provided block grants to tribes to improve the housing stock, provide community facilities, make infrastructure improvements, and expand job opportunities by supporting the economic development of Native American communities;
- the Department of the Interior, which provided economic development funding to tribes for protecting and restoring rangelands and forests and for operating irrigation projects;
- the Department of Health and Human Services, which provided loans and grants for implementing social and economic development strategies that support locally determined projects, including developing the tribes' comprehensive tourism and business plans and providing training in job, computer, and small business skills to tribal members; and
- the Department of Agriculture, which provided funds for rural development.

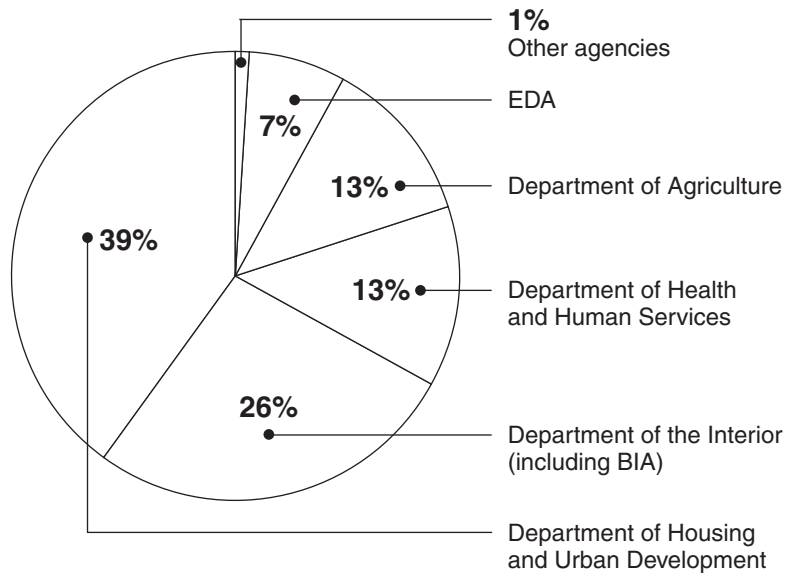
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<sup>2</sup>The Single Audit Act of 1984, Pub. L. No. 98-502, and the Single Audit Act Amendments of 1996, Pub. L. No. 104-156, require that states, local governments, Indian tribes, and nonprofit organizations that annually expend \$300,000 or more in federal awards—\$500,000 for fiscal years ending after December 31, 2003—have audits. The audits must be conducted in accordance with OMB's Circular A-133, Audits of States, Local Governments, and NonProfit Organizations (June 24, 1997). The circular further requires that the results of these audits be submitted to the Federal Audit Clearinghouse, which is responsible for maintaining this information in the government wide Single Audit Act database. The Federal Audit Clearinghouse has contracted with the Census Bureau to maintain this database.

**Appendix II  
Additional Information on EDA Grants to  
Tribes**

Figure 28 shows, on average, the extent to which various federal agencies funded economic development assistance to Indian tribes based on amounts provided between 1998 and 2001.

**Figure 28: Percentage of Economic Development-Related Grants Received by Tribes from Various Federal Agencies, 1998-2001**



Source: GAO analysis of Single Audit Act data.

Notes: Numbers do not add to 100% due to rounding.

“Other agencies” include non-EDA Department of Commerce programs, Department of Education, Environmental Protection Agency, Department of Defense, and the Small Business Administration.

Table 5 shows that several other federal agencies have typically given a greater amount of economic development-related grants to tribes than has EDA.



**Appendix II**  
**Additional Information on EDA Grants to Tribes**

**Table 5: Economic Development-Related Grants to Tribes in the Lower 48 States with Available Single Audit Act Data, by Agency, 1998-2001**

Agency	CFDA <sup>a</sup>	Program	Total average annual amount received by tribes	Number of tribes receiving grants
<b>Department of Housing and Urban Development</b>			<b>\$41,143,971</b>	<b>192</b>
	14.862	Indian Community Development Block Grant Program	<b>35,116,860</b>	168
	14.227	Community Development Block Grants/ Special Purpose Grants/Technical Assistance	<b>1,807,891</b>	14
	14.218	Community Development Block Grants /Entitlement Grants	<b>1,047,241</b>	12
	14.250	Rural Housing and Economic Development	<b>946,882</b>	10
	14.246	Community Development Block Grants /Economic Development Initiative	<b>864,377</b>	3
	14.228	Community Development Block Grants /States Program	<b>676,028</b>	12
	14.219	Community Development Block Grants /Small Cities Program	<b>540,242</b>	5
	14.511	Community Outreach Partnership Center Program	<b>144,450</b>	1
<b>Department of the Interior</b>			<b>26,560,928</b>	<b>127</b>
	15.039	Fish, Wildlife, and Parks Programs on Indian Lands	<b>8,658,723</b>	65
	15.035	Forestry on Indian Lands	<b>7,306,262</b>	56
	15.124	Indian Loans/Economic Development	<b>3,360,975</b>	13
	15.034	Agriculture on Indian Lands	<b>2,914,703</b>	34
	15.049	Irrigation on Indian Lands	<b>1,835,852</b>	25
	15.032	Indian Economic Development	<b>1,334,650</b>	23
	15.038	Minerals and Mining on Indian Lands	<b>1,149,765</b>	19
<b>Department of Health and Human Services</b>			<b>13,341,091</b>	<b>181</b>
	93.612	Native American Programs	<b>13,111,687</b>	179
	93.570	Community Services Block Grants	<b>229,404</b>	7
<b>Department of Agriculture</b>			<b>13,066,832</b>	<b>57</b>
	10.421	Indian Tribes and Tribal Corporation Loans	<b>5,827,137</b>	5
	10.854	Rural Economic Development Loans and Grants	<b>4,317,280</b>	8
	10.766	Community Facilities Loans and Grants	<b>1,735,930</b>	9
	10.769	Rural Business Enterprise Grants	<b>775,651</b>	18
	10.670	National Forest/Dependent Rural Communities	<b>317,529</b>	21
	10.064	Forestry Initiative Program	<b>49,804</b>	1
	10.773	Rural Business Opportunity Grants	<b>15,607</b>	2
	10.771	Rural Coop Development Grants	<b>15,395</b>	1
	10.772	Empowerment Zones Program	<b>12,500</b>	1

**Appendix II  
Additional Information on EDA Grants to  
Tribes**

(Continued From Previous Page)

Agency	CFDA <sup>a</sup>	Program	Total average annual amount received by tribes	Number of tribes receiving grants
<b>Department of Commerce (EDA only)</b>			<b>6,690,120</b>	<b>83</b>
	11.307	Economic Adjustment Assistance	3,198,651	14
	11.300	Public Works and Economic Development	1,566,118	24
	11.302	Support for Planning Organizations	970,380	40
	11.305	State and Local Economic Development Planning	495,366	25
	11.303	Technical Assistance	433,684	12
	11.312	Research and Evaluation	25,921	1
<b>Department of Commerce (non-EDA only)</b>			<b>647,507</b>	<b>10</b>
	11.801	Native American Programs	203,685	2
	11.800	Minority Business Development Centers	183,021	1
	11.552	Technology Opportunities	139,544	5
	11.427	Fisheries Development	121,257	3
<b>Department of Education</b>			<b>311,964</b>	<b>2</b>
	84.234	Projects with Industries	311,964	2
<b>Environmental Protection Agency</b>			<b>218,430</b>	<b>13</b>
	66.811	Brownfields Pilots Coop Agreements	218,430	13
<b>Department of Defense</b>			<b>207,363</b>	<b>2</b>
	12.110	Planning Assistance to States	174,821	1
	12.600	Community Economic Adjustment	32,542	1
<b>Small Business Association</b>			<b>105,587</b>	<b>8</b>
	59.007	Management and Technical Assistance	103,257	7
	59.009	Procurement Assistance to Small Businesses	2,330	1
<b>Grand total</b>			<b>\$102,293,792</b>	

Source: GAO analysis of Single Audit Act data.

Note: This analysis only pertains to tribes in the lower 48 states with available Single Audit Act information at the time of our download (August 2003) and entries with valid CFDA numbers.

<sup>a</sup>Catalog of Federal Domestic Assistance (CFDA) is a governmentwide compendium of federal programs and activities that is coordinated by the Office of Management and Budget and compiled by the General Services Administration.

**Additional Information on  
Results of EDA Grants**

Figure 29 shows provides details on the results of completed EDA-funded enterprise projects, including the status of the projects as of early 2004, the EDA grant amount, the number of jobs created, and other benefits that have accrued to the tribe as a result of undertaking the project.

**Appendix II  
Additional Information on EDA Grants to  
Tribes**

**Figure 29: Benefits of Completed EDA-Funded Enterprises, 1993-2002**

Funded	Project description	Status	EDA grant amount (Dollars)	New jobs <sup>a</sup>	Other benefits
1993	Manufacturing plant	Profitable	\$2,000,000	18	Job training
	Manufacturing plant expansion	Failed	125,000	0	
	Cannery renovation	Covering costs	1,000,000	8	Supports fisherman
	Manufacturing plant renovation	Covering costs	1,275,000	0	Kept plants from closing
1994	Sawmill acquisition	Failed	762,000	0	
	Manufacturing plant	Failed	200,000	0	
1995	Commercial complex expansion	Failed	1,000,000	0	
1996	Shopping center	Profitable	2,500,000	30	Spin-off business
	Fish processing plant	Subsidized	1,000,000	13	Supports fisherman
	Manufacturing plant expansion	Profitable	260,000	15	Bolsters local business
1997	Fish hatchery	Covering costs	386,000	15	Bolsters tourism and tribal fishing
	Museum expansion	Covering costs	650,000	20	Bolsters tourism
	Bird rehabilitation center	Profitable	439,000	23	Bolsters tourism
1998	Manufacturing plant	Failed	368,000	0	
	Cultural center	Subsidized	2,000,000	63	Supports arts and crafts
	Manufacturing plant	Profitable	491,000	15	Job training
1999	Cannery renovation	Covering costs	850,000	0	Supports fisherman
	Cultural center	Covering costs	480,000	7	Job training
1999-02	Manufacturing plant expansion	Covering costs	739,000	50	Welfare to work job training
2000	Sawmill/cogeneration restoration	Profitable	1,600,000	0	Bolsters local businesses
	Woodlands enterprise	Subsidized	415,000	8	Job training, forest management
	Horticultural enterprise	Subsidized	317,000	4	Restore rivers/fish
	Renovate campground	Failed	1,000,000	0	
	Manufacturing equipment	Profitable	100,000	40	Job training
	Shopping center	Subsidized	2,500,000	70	Bolsters local economy
	Community center	Too early to tell	360,000	0	Community activities
2000-02	Information technology center	Subsidized	1,400,000	40	Job training
2001	Cultural center	Subsidized	1,300,000	0	Supports annual art/craft festival
	Resort development	Covering costs	257,000	3	Bolsters tourism
	Manufacturing equipment	Failed	409,000	0	
	Technology center	Covering costs	490,000	8	Job training
	Fish processing plant	Too early to tell	200,000	7	Supports fisherman
	Community center	Too early to tell	1,000,000	8	Community activities
2002	Manufacturing plant restoration	Covering costs	1,600,000	265	Bolsters local economy
<b>Total</b>			<b>\$29,473,000</b>	<b>740</b>	<b>EDA cost/job = \$39,828</b>

Sources: GAO survey and EDA data.

<sup>a</sup>Number of jobs at the enterprise at the time of our survey that did not exist prior to project funding, as reported by tribal officials. For purposes of this analysis, seasonal jobs are counted as half a job.

Figure 30 shows the status of EDA-funded enterprise projects broken down by year funded.

**Appendix II  
Additional Information on EDA Grants to  
Tribes**

**Figure 30: Outcome of Enterprise Projects Funded by EDA, 1993-2002**

Outcome	Year funded										Subtotal 1993-1997	Subtotal 1998-2002	Total
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002			
Profitable	●			●●	○	●		●●			4	3	7
Covering costs	●○				●●		●○○		●●	●	4	6	10
Being subsidized				○		○		●● ●●	●		1	6	7
Failed	●	●●	●			●		●	●		4	3	7
Not yet in operation/too early to tell						●	○○	●●○	○●●●●● ○○○○○○○ ○○○○○○○	●●	0	28	28

○ = One enterprise project (Alaska)  
● = One enterprise project (Lower 48 states)

Source: GAO survey of EDA data.

Note: Most of the projects funded in 2001 were grants to Alaska tribes and organizations under a disaster relief appropriation in response to a slump in fishing industry.

Officials from two of the tribes that had projects fail in the earlier years said they have learned from their mistakes and were now engaged in successful enterprise development buttressed by revenues from gaming and other tribal enterprises.

As noted earlier, many of the tribal enterprise projects that EDA funded were in Alaska, and most have yet to be completed. From 1998 through 2001, EDA provided \$14 million to cover approximately 40 percent of the cost of constructing 15 Alaska Native cultural/community centers. The goal of these projects was to promote tourism and/or community development. The economic impact of these projects has yet to be determined because 11 of the 15 centers are still under development, and two of the completed projects have not been in operation long enough to establish results. However, Native officials provided revenue and job projections that indicate the cultural/community center projects would not create many jobs or generate much revenue for Alaska Natives. However, an EDA official told us that economic development for these communities is challenging for several reasons, including these areas' remoteness, harsh climate, limited infrastructure, high fuel and shipping prices, and short construction seasons.

Table 6 gives details on the Indian revolving loan funds (RLFs) supported by EDA during the 1993-2002 period. In some instances EDA gave funds to

**Appendix II**  
**Additional Information on EDA Grants to Tribes**

support business-training programs for loan fund applicants. In other instances, EDA provided seed money to help start new RLFs.

**Table 6: EDA Grants Supporting Indian Revolving Loan Funds, 1993-2002**

Service area	Year RLF initiated	EDA funds 1993-2002	Use of EDA funds	Current loan pool amount
1 California tribe	1977	\$285,000	Business training program	\$3,267,000
1 South Dakota tribe	1986	1,000,000	Construct facility for training, etc.	2,000,000
1 South Dakota tribe	1998	150,000	RLF seed money	375,000
Tribes in Montana and Wyoming	1998	500,000	RLF seed money	448,000
54 Northwest tribes	1998 (first loans in 2001)	\$300,000	RLF seed money	\$1,150,000

Source: GAO analysis of EDA data.

Table 7 provides information on the results of 19 completed EDA-funded infrastructure projects including the year funded, the project description, the EDA grant amount, and the benefits accrued.

**Table 7: Benefits of Completed EDA-Funded Infrastructure Projects, 1993-2002**

Year funded	Project description	EDA grant amount	Benefits
1993	Sewer and road	\$400,000	Enabled establishment of industrial park
1993/94	Electricity, sewer, water, road	800,000	Enabled establishment of industrial park
1994/97	Water and sewer expansion	1,514,000	Enabled tribal industries and resort and casino to operate
1994	Water system improvements	724,000	Enabled expansion of housing and tribal offices
1994	Construct water treatment plant	900,000	Enabled expansion of tribal facilities
1994	Public dock construction	826,000	Enabled fishing boat docking and fuel deliveries

**Appendix II**  
**Additional Information on EDA Grants to Tribes**

*(Continued From Previous Page)*

<b>Year funded</b>	<b>Project description</b>	<b>EDA grant amount</b>	<b>Benefits</b>
1995	Water/sewer upgrade and extension	1,100,000	Enabled development of resort and casino complex
1995	Construct water storage tank	539,000	Enabled business expansion
1995/97	Sewer system renovation	1,260,000	Enabled development of industrial park and casino
1996/99	Construct marina/breakwater	2,600,000	Support fishing and tourism industries
1997	Streambed stabilization	205,000	Enabled valley to be used for agriculture, offices, etc.
1997	Water, sewer, electrical, roads	1,000,000	Enabled establishment of industrial park
1997	Dock renovation	824,000	Facilitated public use and fish plant
1998	Construct sewer line	1,618,000	Enabled construction of commercial mall and casino
1999	Construct wastewater system	425,000	Enabled development of hotel and casino
2000	Extend water, sewer, and electrical lines	500,000	Enabled establishment of commercial and industrial parks
2000	Install satellite dishes for Internet connections	170,000	Enabled tribal members to connect to Internet
2001	Construct sewer, water, road	759,000	Enabled development of industrial park
2002	Construct sewer line	\$1,000,000	Enabled business district to be sustained

Source: GAO analysis of EDA data.

**Declining Administrative Resources Reduced Extent to Which EDA Monitors and Provides Technical Assistance for Its Grants to Indian Tribes**

In recent years, EDA has reduced the amount of staff and resources it uses to conduct monitoring of grant recipients, including projects developed by Indian tribes. EDA regulations require regional offices and field staff to monitor grant activities by reviewing reports and conducting site visits within 3 years of the application. According to EDA development strategy guidelines, grant recipients annually submit their development strategy to ensure their plan or strategies for developing the area economically are

complete and up to date.<sup>3</sup> EDA headquarters officials told us they expect for field staff to review reports quarterly and annually visit grant sites to review the progress of EDA-funded construction projects, including enterprise or infrastructure projects. According to the regional officials, the purpose of these visits is to verify that grantees are actually using the funds for the purpose stated in the approved grant application and in their economic development strategy.

According to EDA funding documents, the number of EDA staff acting as economic development representatives in individual states has declined by about 26 percent from 47 to 35 between fiscal years 1993 to 2002.<sup>4</sup> According to EDA staff, this has reduced their ability to monitor funded projects and provide technical assistance to grant recipients. Also, one regional official told us cutbacks in travel funds have required some economic development representatives to forego visiting some projects and to rely instead on reviewing reports submitted by the private sector construction engineers. For example, staff in one of the EDA regional offices told us that one of their field staff is responsible for two very large states with its grants located in such remote locations that site visits are seldom made because of the limited travel funds.

The staffing and travel fund reductions have also reduced the amount of technical assistance that EDA provided to tribes. According to regional EDA officials, their economic development representatives frequently provide one-on-one consultations with grantees either by telephone or during site visits. These consultations give tribe officials the opportunity to address concerns or issues with the grant application, construction, or infrastructure projects. However, with fewer field staff and less travel funds, their staff are able to provide such assistance less frequently.

Tribal officials we interviewed indicated that they needed more assistance from EDA. For example, one tribal official told us that they needed help completing grant applications; while others said that they would like to have more frequent visits by the Economic Development Representatives

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<sup>3</sup>The Economic Development Administration and Appalachian Regional Development Reform Act of 1998, Pub. L. No. 105-393, a comprehensive amendment of the Public Works and Economic Development Act of 1965, requires a comprehensive economic development strategy to qualify for assistance under most EDA agreements.

<sup>4</sup>Department of Commerce Economic Development Administration's Notice of Funding Availability for Fiscal Years 1993-2002.

and to have them work directly with the tribes. Another official at one tribe said that they experienced difficulties obtaining necessary funding to complete their projects. According to a study on Indian economic development, the lack of technical assistance can negatively affect the

success of EDA-funded projects.<sup>5</sup> For example, one Alaskan tribe told us they had to seek additional funds before their project failed because of lack of direct interaction with an Economic Development Representative to answer questions.

According to regional officials, in addition to the direct consultations, EDA also formerly provided technical assistance through conferences and seminars. In addition to a national conference, EDA would hold regional seminars, which EDA officials saw as beneficial because people in the local area could more easily attend and receive information specific to their particular region or tribe. However, as a result of the resource cutbacks, EDA officials told us that the agency now only holds the one annual national conference and no longer provides funding for any regional events.

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<sup>5</sup>Miriam Jorgensen and Jonathan B. Taylor, *What Determines Indian Economic Success? Evidence from Tribal and Individual Indian Enterprises*, Harvard Project on American Indian Economic Development, *Harvard University, (Cambridge, MA 2000)*.



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# Additional Information on Relationship between Contracting and Tribes' Economic Profiles

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The Indian Self-Determination Act, as amended, allows tribes to enter into various arrangements with federal government agencies to assume the operation of many of the programs and services previously provided by the agencies. From the list of federally recognized tribes and from 2000 U.S. Census Bureau (Census) data, we identified 219 tribes in the lower 48 states that had 100 or more Native Americans living in the tribal area. According to Department of the Interior's Bureau of Indian Affairs (BIA) information, 43 of the 219 tribes had entered into self-governance arrangements with BIA. As a result, these tribes operated most of their own tribal functions and services under a funding compact agreement with BIA. By analyzing Single Audit Act data that shows funding provided by federal agencies, we determined that nearly all of the remaining 176 tribes operated many of their tribal functions and services under contracts and other agreements with BIA.

We grouped the 219 tribes in the lower 48 states with populations greater than 100 into three categories. The first category included the 43 tribes that had entered into self-governance arrangements with BIA. Such tribes generally have assumed the operation of most of the services used by tribal members. For the remaining 176 non-self-governance tribes, we analyzed how much funding these tribes received from BIA contracts and grants from 1998 to 2000 in total and on a per capita basis. Based on these analyses, we determined that the 121 tribes with annual per capita BIA contract amounts exceeding \$580 and total annual BIA contracting amounts greater than \$300,000 appeared to be high-contracting tribes, and we, therefore, categorized the remaining 55 tribes whose per capita or total contracting amounts were less than these thresholds as low-contracting tribes.<sup>1</sup>

To analyze the relationship between contracting and changes in tribal economic profiles, we compared how various indicators of economic well-being from Census data had changed for these three groups of tribes. Table 8 shows the changes in economic indicators for three categories of tribes used in our analysis—the self-governance tribes, the high-contracting tribes, and the low-contracting tribes. The data shows that there was great variability within each category, with the top 10 percent of

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<sup>1</sup>We used both per capita and total contract amounts to categorize the tribes because larger tribes tended to have smaller contract amounts on a per capita basis. By setting the thresholds where we did, we appeared to capture those large tribes that were engaged in extensive contracting activities on a total dollar amount basis despite having a lower per capita contracting amount than some other tribes.

**Appendix III  
Additional Information on Relationship  
between Contracting and Tribes' Economic  
Profiles**

tribes showing high growth, while the bottom 10 percent had negative growth. On average, the high-contracting and self-governance tribes showed greater growth in employment levels, but differences in the other indicators were not statistically significant.

**Table 8: Change in Economic Indicators for Self-governance High-Contracting and Low-Contracting Tribes, 1990-2000**

	Number of tribes	Percentage change 1990-2000				
		Median level, 2000	Median change	90th percentile	10th percentile	Percent positive
Employment level						
Self-governance	43	53%	13%	37%	- 5%	78%
High-contracting	121	48%	10%	38%	- 23%	68%
Low-contracting	55	43%	- 1%	53%	- 37%	49%
Per capita income						
Self-governance	43	\$9,790	25%	76%	- 3%	89%
High-contracting	121	\$8,791	32%	80%	0%	89%
Low-contracting	55	\$9,505	37%	158%	- 10%	85%
Percentage above poverty						
Self-governance	43	69%	9%	51%	- 1%	84%
High-contracting	121	68%	16%	48%	- 21%	79%
Low-contracting	55	73%	15%	64%	- 15%	74%

Sources: GAO analysis of data from Census, Single Audit Act, and BIA.

We also analyzed how the amount of federal grants and contracts related to tribes' total tribal income and how changes in economic profiles varied according to this relationship. For this analysis, we identified the total average amount of federal grants and contracts the tribes in our analysis received annually in 1998, 1999, and 2000 from all federal agencies using the Single Audit Act database. We then found the total income of the Native Americans living on the tribe's lands, which was calculated by multiplying the per capita income of the tribe by the total number of Native Americans living on the reservation, with an adjustment for Native Americans living in the reservation's service area.<sup>2</sup> Dividing the total federal funding for each tribe by its tribal income resulted in a grants-to-income ratio. We then classified each tribe in our analysis into four categories based on the level of this ratio. As table 9 shows, tribes with a moderate or low grants-to-

<sup>2</sup>Appendix I describes in detail how we calculated this income amount.

**Appendix III  
Additional Information on Relationship  
between Contracting and Tribes' Economic  
Profiles**

income ratio showed significantly higher gains in per capita income and percent above poverty than did tribes with a very high grants-to-income ratio.

**Table 9: Change in Economic Indicators of Tribes by Grants-to-Income Ratio Categories, 1990-2000**

Grants-to-income ratio category <sup>a</sup>	Median percentage change, 1990-2000			
	Low (0 to .20) (n=50)	Moderate (.21 to .49) (n=71)	High (.50 to .99) (n=52)	Very high (over 1.0) (n=26)
Per capita income	33%	38%	29%	16%
Percentage employed	3%	13%	6%	10%
Percentage above poverty	10%	26%	14%	6%

Sources: GAO analysis of Census, and Single Audit Act, and BIA data.

















Note: Number of tribes by category: 50 low, 71 moderate, 52 high, and 26 very high.

<sup>a</sup>Based on 1998-2000 data. See appendix 1 for categorization methodology details.

We also analyzed the relationship between variations in tribes' grants to income ratio and the extent to which they were contracting or self-governance. Figure 31 shows that about half the high-contracting and self-governance tribes had moderate or low grants-to-income ratios, while about 9 percent of the self-governance tribes and 18 percent of the high-contracting tribes have a very high grants-to-income ratio.

**Appendix III  
 Additional Information on Relationship  
 between Contracting and Tribes' Economic  
 Profiles**

**Figure 31: Percentage of Self-governance, High-Contracting, and Low-Contracting Tribes by Grants-to-Income Ratio**

Contracting category	Number of tribes with data available	Percentage in grants-to-income ratio categories			
		Very high	High	Moderate	Low
Self-governing tribes	43				
High-contracting tribes	119				
Low-contracting tribes	37				
Total	199				

Sources: GAO analysis of Census, Single Audit, and BIA data.

# Comments from Department of Commerce

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



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

August 9, 2004

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

Dear Mr. Shear:

Thank you for providing the U.S. Department of Commerce an opportunity to review and comment on the draft report entitled Indian Economic Development: Relationship to EDA Grants and Self-Determination Contracting is Mixed.

I enclose the Department of Commerce comments on this report.

Sincerely,

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

Donald L. Evans

Enclosure

**COMMENTS FROM THE DEPARTMENT OF COMMERCE REGARDING  
GAO DRAFT REPORT (GAO-04-847) INDIAN ECONOMIC DEVELOPMENT:  
RELATIONSHIP TO EDA GRANTS AND SELF-DETERMINATION  
CONTRACTING IS MIXED**

The Department of Commerce (DOC) appreciates the Government Accountability Office's (GAO) diligence in pursuing this important study, its willingness to provide us with the details of its analyses, and the opportunity to respond. The Economic Development Administration (EDA) acknowledges that our enterprise development investments, at the point in time they were analyzed, had "mixed" success given the EDA investments GAO reviewed and evaluated. However, the success of other types of investments should be considered in order to make a broad statement about the economic development generated by EDA grants as a whole.

See comment 1.

The report categorized EDA assistance as enterprise projects, revolving loan fund and business development programs, infrastructure projects, and planning and feasibility studies. The report reviewed data from 59 enterprise projects funded between 1993 and 2002 and focused on 31 recently completed projects. Figure 8 on page 19 of the report indicates that 23 percent of the projects were profitable; 32 percent covered costs; 23 percent were subsidized; and 23 percent had failed. On the basis of this information, GAO concludes that EDA investments have had "mixed success" in generating economic development for the Indian tribe recipients.

See comment 1.

The report emphasizes that the largest portion of EDA funds were provided for enterprise development to create revenue and apparently based its findings primarily on the success or profitability of these projects. While EDA agrees that a large portion of EDA funds did go to enterprise development projects, other major EDA investments (classified by GAO as infrastructure, business development, and planning and technical assistance) also contributed to revenue generation, business development, and job creation. The report indicates that several of these investments appear to have produced positive results for the Indian tribes involved, but did not include a detailed analysis of these projects. See for example, the favorable treatments of EDA infrastructure grants at pages 28-29 of the report. Also see all favorable comments regarding planning grants at page 31. The EDA planning grants appeared to help tribes successfully. Therefore, EDA suggests that the report, and in particular the title of the report, more accurately reflects that the relationship of Indian economic development to EDA enterprise projects is mixed.

**Statement on page 8: "...since 2002 EDA has placed more emphasis on projects that create high-wage, high-skill jobs and that are market based and likely to attract private sector investment." Statement on page 23 that "in light of the mixed success that EDA funded enterprise projects experienced, tribes may find obtaining EDA funding in the future more difficult because of the changes in the agency's criteria for awarding grants."**

See comments 2 and 3.

The statement on page 8 should read "... higher-skill, higher-wage jobs..." EDA seeks to create environments in which jobs are created that are higher skill, higher-wage than those that currently exist in the area or region where the investment is being made. The generation of private sector investment is also essential to creating a growing economy, and EDA investments seek to create the conditions that will attract private sector investment. These goals are particularly important to Indian tribes, since conditions unique to these communities tend to make private capital investment less attractive. Additionally, EDA does not evaluate proposals on these criteria in isolation – all aspects of an investment and all potential benefits are assessed during funding decisions. EDA does review investment proposals on the basis of investment policy guidelines designed to ensure that investments represent the best chance of creating market-based and sustainable growth. No region or area is disadvantaged in the competition for funding because of its location, the level of distress or the population served. EDA has a long history of supporting Indian economic development and such support will continue. See for example, the favorable treatments of EDA infrastructure grants at pages 28-29 of the report. Also see all favorable comments regarding planning grants at page 31. The EDA planning grants appeared to help tribes successfully.

**Discussion of RLF investments, specifically on page 25**

EDA concurs with the report, which provides a cautionary description of the challenges that EDA faces with respect to the revolving loan fund (RLF) program. While RLFs can be successful, their implementation can be difficult, particularly in the environment of Indian country. For these reasons, EDA reaffirms that it has standards that are expected to be met for all its investments, especially RLFs.

**Statement on page 29: "According to the Department of Commerce's fiscal year performance report, EDA considers funding distressed communities' planning efforts critical to effective economic and sustainable development."**

EDA has firmly supported planning for regions facing economic challenges and, in fact, requires comprehensive planning as the basis of any implementation funding proposal. We note the positive comments in the GAO report that 90 percent of the tribal officials surveyed indicated that the planning grants were crucial or very important in achieving success in their tribes' economic development (page 29). The report further notes that the EDA planning grants appeared to help tribes successfully implement EDA enterprise projects (page 31). This confirms the importance and utility of comprehensive strategies. At the same time, EDA also recognizes that the planning process must result in tangible outcomes. EDA will continue constantly improving the effectiveness of all our program tools as part of the agency's own performance-based planning requirement.

**Statements on Pages 10 and 44 that EDA's assistance to tribes represent only 3% of the total amount of funding it awarded between 1993 and 2002.**

EDA confirms that Indian tribes did receive approximately 3 percent of the total amount of funding EDA awarded between 1993 and 2002; however, as the report notes

on page 11, “the proportion of EDA funds going to tribes appears to be similar to the proportion of the U.S. population living in poverty that these tribes represent.” The GAO report notes comments from tribal leaders that economic development would progress faster if more funds were made available. EDA affirms that there is no annual quota for Indian economic development funding and that investment proposals are considered fairly and solely on the basis of merit.

**Heading on page 70: “Declining Administrative Resources Reduced Extent to Which EDA Monitors and Provides Technical Assistance for Its Grants to Indian Tribes.”**

EDA has experienced cutbacks in staffing, operating resources, and a reduction in grant funding. EDA is currently streamlining its grant delivery and analyzing administrative processes to ensure higher standards of customer service and assistance to all grantees, including Indian tribes. We also continue to seek new ways to maintain the relationships that EDA has forged with tribes. This may involve working more with other agencies to seek increased leveraging of our joint efforts and resources.

**Statement on page 8: “After receiving quality control clearance and depending on the type of grant program, either the Regional Director or the Assistant Secretary in EDA headquarters approves the decision to invite the entity to submit a formal application.”**

Correction: Delete “either” and delete “or the Assistant Secretary in EDA headquarters.” The Assistant Secretary is not involved in the investment proposal review and application submission process.

See comment 4.



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The following are GAO's comments on the Department of Commerce's letter dated August 9, 2004.

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## GAO Comments

1. Our scope for analyzing EDA grants was confined to the 95 Indian tribes we surveyed. Our survey methodology included interviewing tribal officials that were cognizant of the tribes' economic development projects and activities. Our survey results reflect the information provided by and the opinions of tribal officials who participated in our survey. We also interviewed relevant officials from EDA. We think our methodology was sufficient to reach our overall findings.
2. We made revisions based on this comment.
3. Our report notes that tribal officials and some EDA staff expressed the view that tribes, particularly those located in rural areas, would have a harder time obtaining funding under the investment criteria that EDA implemented in 2002. This criteria favors projects that result in higher-wage, higher skill jobs and private investment. However, Commerce's letter states that no area or region will be disadvantaged and that its long history of support of Indian tribes will continue.
4. We made revisions based on this comment.

# Comments from the Department of the Interior



## United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY  
POLICY, MANAGEMENT AND BUDGET  
Washington, D.C. 20240

AUG 10 2004

William B. Shear, Director  
Financial Markets and Community Investment  
Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Director Shear:

Thank you for providing us the opportunity to review the Government Accountability Office (GAO) draft report entitled, "INDIAN ECONOMIC DEVELOPMENT: Relationship to EDA Grants and Self-Determination is Mixed" (GAO-847). The purpose of the review was to determine how tribes were benefiting economically from Federal assistance received through the Economic Development Administration grant program from contracting and compacting arrangements entered into with the Bureau of Indian Affairs (BIA) pursuant to the Indian Self-Determination and Education Assistance Act. Regarding the economic benefits derived from contracting and compacting arrangements, the GAO found that tribes that were self-governing or engaged in a high level of contracting showed greater gains on average in employment levels from 1990 to 2000 than did tribes that were contracting to perform fewer of their own programs. Other analyses were not statistically different for self governing or high-governing or high-contracting tribes compared to low-contracting tribes. Tribal officials indicated to GAO that running their own programs through contracts and compacts allowed them to gain self-governance experience and to tailor the programs to their own needs.

The BIA has reviewed the report and generally agrees with the conclusions reached by the GAO. The BIA supports increased self-determination contracting and compacting as a means of improving tribal economic development efforts. But as noted in the report, other factors, such as, the tribe's location, availability of resources, access to capital, and quality of tribal governance also significantly influence a tribe's ability to develop their tribal economics successfully. The report contains no recommendations for the BIA to address.

Sincerely,

P. Lynn Scarlett  
Assistant Secretary  
Policy, Management and Budget

# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

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## Staff Acknowledgments

In addition to the individuals named above, Carl Barden, Mark de la Rosa, DuEwa Kamara, Jeffery Malcolm, Bettye Massenburg, Don Porteous, LaSonya Roberts, Walter Vance, and Carrie Wilks made key contributions to this report.

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